Supreme Court, U.S.
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No. 05- 051135

IN THE

Supreme Court of the United States

CRATER CORPORATION,

Petitioner,

v.

LUCENT TECHNOLOGIES, INC., AT&T COMPANY, and UNITED STATES OF AMERICA,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

ROBERT SCHULTZ
Counsel of Record
RONALD J. EISENBERG
SCHULTZ & LITTLE, L.L.P.
640 Cepi Drive, Suite A
Chesterfield, MO 63005
(636) 537-4645

Counsel for Petitioner

199768

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

QUESTIONS PRESENTED FOR REVIEW

Petitioner Crater Corporation, which patented an ingenious underwater coupling device, brought suit against two large corporations who wrongfully used and sold the device. The government intervened to invoke the Military and State Secrets Privilege to prevent Crater Corporation—but no other party—from conducting necessary discovery. Notwithstanding clear Supreme Court precedent from *United States v. Reynolds*, 345 U.S. 1 (1953), that the governmental department head give "actual personal consideration to the matter," i.e., see and consider the contents of the documents claimed to be privileged, not one of the documents sought to be shielded had been seen by the department heads. Moreover, the materials for which the government sought protection were not even secret; they had been disclosed, before and during case proceedings, with the government's permission.

1. Whether, in asserting the Military and State Secrets Privilege, the government satisfies the "actual personal consideration" requirement of *United States v. Reynolds*, 345 U.S. 1 (1953), when the department head affiants do not claim to have seen and considered a single document claimed secret.

2. Whether the Military and State Secrets Privilege applies to the discovery of nonsecret information and documents intentionally disclosed by the government and with the government's permission before and during case proceedings.

3. Whether the circuit court violates a litigant's constitutional right to a jury trial when it departs from the accepted and usual course of judicial proceedings by remanding to the district court for judge determinations of fact and strength of claims not countenanced by statute, case law, or the Constitution.

STATEMENT PURSUANT TO RULE 29.6

Petitioner, Crater Corporation, has no parent corporation and no publicly held company owns 10% or more of its stock.

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OPINIONS BELOW

Several opinions and orders below culminated in the Federal Circuit's ruling that is the subject of the petition writ of certiorari. In chronological order, they are as follows:

- On August 25, 1999, the district court dismissed all of Crater's claims. That order (App. D) is found at No. 4:98CV00913ERW, 1999 WL 33973795 (E.D. Mo. Aug. 25, 1999).

- On June 6, 2001, the Federal Circuit affirmed in part, vacated in part, and remanded. The opinion (App. C) is reported at 255 F.3d 1361.

- On February 19, 2004, the district court denied Crater's Motion to Dissolve the Second Protective Order and dismissed Crater's claims. The district court's memorandum and order (App. B) is found at No. 4:98CV00913ERW, 2004 WL 3609347 (E.D. Mo. Feb. 19, 2004).

- On September 7, 2005, a divided panel of the Federal Circuit issued an opinion (App. A at 1a-20a), reported at 423 F.3d 1260, reversing and remanding. Judge Newman concurred in part and dissented in part. (*Id.* at 21a-25a.) In an unreported order filed December 6, 2005 (App. G), the court of appeals also denied Crater's petition for rehearing *en banc*.

JURISDICTION

The judgment of the court of appeals was entered September 7, 2005. (App. A.) The order of the court of appeals denying the petition for rehearing *en banc* was filed December 6, 2005. (App. G.) This Court has jurisdiction under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The United States Constitution, Amendment VII, provides:

> In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.

STATEMENT OF THE CASE

Petitioner Crater Corporation (Crater) owns a patent issued by the United States Patent and Trademark Office, Patent Number 5,286,129 (Patent), which covers a split-valve, underwater coupling device (the Coupler) Crater's owners invented. Respondent AT&T Company (AT&T) contacted Crater to request help developing an underwater fiber optic wetmate, i.e., a connecting device, for sale to an undisclosed customer. Crater agreed to help AT&T and, later, Respondent Lucent Technologies, Inc. (Lucent), but insisted they promise that (1) any information on the Coupler not be disclosed to anyone outside of AT&T and Lucent, (2) they

would provide Crater with copies of any CAD/CAM drawings of the wetmate and with copies of models of the wetmate, (3) they would not sell any wetmate incorporating the Coupler without permission or license from Crater, and (4) any work on the wetmate or Coupler would be done at AT&T's and Lucent's machine shop. Crater provided confidential data and trade secret information to AT&T and Lucent on the Coupler; such information was used in the wetmate Lucent developed. When Crater complained to Lucent about breaches of promises, Lucent indicated to Crater that the work had been for the government and that Crater had no remedy against Lucent.

In May 1998, Crater filed a complaint in the United States District Court for the Eastern District of Missouri, alleging that Lucent and AT&T infringed Crater's Patent, breached contracts with Crater, and misappropriated Crater's trade secrets, by, inter alia, making, using and selling Couplers without a license or permission from Crater.[1]

On September 17, 1998, the district court granted a protective order (First Protective Order) which limited all parties' discovery to jurisdictional issues raised in a motion to dismiss filed by Lucent and AT&T and in Crater's opposition thereto. The court permitted the parties to proceed with discovery on issues of whether Lucent and AT&T made, used, or sold the Coupler to or for anyone other than the government and whether the government gave authorization or consented to Lucent and AT&T's manufacture or use of the Coupler. (App. F.)

1. In September 1998, Crater filed a First Amended Complaint, which made only minor changes to the original pleading. The First Amended Complaint invoked the district court's subject matter jurisdiction pursuant to 28 U.S.C. §§ 1338(a), (b), 1367(a).

On March 11, 1999, the United States (a respondent herein) moved to intervene to assert the Military and State Secrets Privilege (the Privilege) and moved for a protective order prohibiting Crater "from conducting any discovery or serving any subpoena for information relating to the manufacture or use of plaintiff's coupling device, or any coupling device, by or on behalf of the United States." The latter motion was accompanied by the Declaration and Assertion of Military and State Secrets Privilege of Richard J. Danzig, Secretary of the Navy. (App. H.) After declaring that he had been informed of Crater's discovery requests and advised that defendants and possibly others possessed information responsive to Crater's discovery requests, Danzig contended that Crater's discovery could be expected to cause grave damage to national security. He also mentioned an *in camera* declaration describing the operations and programs involved. Significantly, he did not state that he had personally reviewed items requested by Crater, nor did he state that he had attempted to segregate information that was non-secret, and therefore available to Crater, from that which was truly secret. In fact, he had made no such review.

In addition, Lucent and the government had previously informed Crater that the Coupler was not part of the classified government program mentioned in Danzig's declaration. In an April 24, 1997 letter to Crater, the Department of Navy (Navy) wrote that "it will be several months before it can be determined if the Government is going to use a coupling design that maybe [sic] covered by one or more claims of your asserted patent." In a July 30, 1997 letter, the Navy stated that the government's only use of the Coupler was "experimental," "the solution using [Crater's] asserted patent has problematic features," and "[t]hese problematic features,

and the apparent cost associated with correcting the deficiencies . . . , counsel against use of the solution incorporating the asserted patent." In a December 23, 1997 letter to Crater, Lucent wrote that "Lucent was *not* awarded a production contract for an underwater connector based on the prototype as built by Lucent under the classified contract." Finally, in a January 26, 1998 letter to Crater, the Navy confirmed that it had no further interest in using Crater's invention.

> Our investigation has determined, and I can certify, that there has been a use by Lucent Technologies Inc. for the Government of a total of 36 brassboard/prototype engineering development units coupling devices of the type which you have alleged are covered by U.S. patent number 5,286,129. These units were tested and evaluated, and failed to meet fully the Government's requirements. Therefore, the Government is not going to use these devices further.

In March 1999, the district court held a hearing on the government's motions to intervene and for protective order. The unopposed motion to intervene was granted. As to the protective-order motion, however, Crater objected that the government did not properly invoke the Privilege, in part because the agency head did not submit an affidavit stating "that he had seen and considered the documents he considered secret." In response, the government's counsel confirmed the accuracy of Crater's objection by stating:

> Now, we, the government, do not know what documents the defendants necessarily have in their possession or what information or the breadth of the information the plaintiffs want from these defendants.

Notwithstanding Danzig's deficient affidavit, on March 24, 1999, the district court granted the government's motion for a protective order. The court's order (Second Protective Order) prohibited Crater—but no other party—from "conducting any discovery or serving any subpoena for information relating to the manufacture or use of plaintiff's coupling device, or any coupling device, by or on behalf of the United States."[2] (App. E.) The Second Protective Order prohibited discovery as to a whole category of information, regardless whether (1) any particular item had been reviewed by the government, as required, (2) revealing that item would threaten national security, or (3) the item had until then been kept secret.[3] After entry of the Second Protective Order, Crater took truncated depositions. The order, however, prevented Crater from conducting meaningful discovery.

During a July 30, 1999 deposition, Kenneth Nagengast, who had worked for Lucent and AT&T, testified about the non-classified, non-secret Coupler and wetmate of which the Coupler was a part. He admitted that in 1996 or 1997 he gave two presentations about the wetmate to Lucent employees; the first presentation had an audience of about a dozen persons and the second had an even larger audience. He testified that the Coupler and wetmate were never classified and that he was allowed to talk about and show them to the public. Nagengast testified under oath as follows:

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2. The Second Protective Order, originally filed under seal, was subsequently unsealed.

3. Crater provided discovery to Lucent and AT&T, including numerous design documents concerning the Coupler and the wetmate Lucent and AT&T had manufactured and sold.

Q. Do you know the security clearances of all the people at these two presentations?

A. No.

Q. Do you know if there were people at those presentations who had no clearance at all?

A. No.

Q. You don't know the answer?

A. I do not know the answer.

Q. And yet at this presentation you presented a demonstrated, a demonstrative model of the device you were working on for the government?

A. Yes.

* * *

Q. Are you required to report breaches of security?

A. Yes, I am.

Q. Have you reported the presentations to senior management as breaches of security?

MR. TYLER [the government's counsel]: Objection. Assumes there was a breach of security.

Q. Go ahead. Have you reported it?

THE WITNESS: Should I answer him?

MR. BONACORSI: Yes. The objection stands. I join in the objection. Go ahead and answer if you can.

A. I have not reported it as a breach of security.

Q. Do you believe it was a breach of security?

A. No, I do not.

Q. Why not?

MR. BONACORSI: Calling for opinion, conjecture, speculation. Go ahead and answer.

A. Well, let's see —

MR. TYLER: Do you need to speak about this before you respond?

THE WITNESS: I just want to know how much.

MR. BONACORSI: Just before you do that, let me ask you one thing before you talk. I am not permitted to join in that conversation.

(Discussion off the record.)

A. Okay, read back the question.

(Pending question was read.)

A. I don't believe it was a breach of security because that part of the assembly is not considered a breach of security to show that—

Q. Okay.

A. —outside of cleared personnel, which is why our machine shop was making that for us. Additionally, I was given permission from our government customer to present this at this presentation.

Q. What part of the device is not classified?

A. What part is not classified?

Q. You just told me that the part you presented at this presentation is not classified?

A. Correct. The split ball is a part of what we call the connector, that connector itself is not considered classified.

Q. But the split ball is?

A. No.

Q. I see. The connector is not classified and the split ball is part of the connector?

A. Right.

Nagengast even used a "see-through" wetmate in the presentations, and in deposition described the wetmate's design:

Q. The wet mate you used in your presentations to senior Lucent management, did it have at least partially an outer layer made of clear Lucite?

A. Yes.

Q. And that's so you can see inside of it?

A. Yes.

Q. Did it have rotating black and white ball segments in it?

A. I don't recall the colors.

Q. Did it have contrasting colors so you can see, it would make a better visual presentation?

A. It's possible. I don't recall.

Q. Did it have actuation linkages?

A. It had, yes.

Q. Did it have bladders in silicone oil?

A. No.

Q. Did it have a spring-loaded MAC II multi fiber electro optical connector?

A. Yes.

Q. Did that pass through the port of one segment and mate with the split ball coupling device?

A. Yes.

Lucent employee Paul Rominski was also deposed on July 30, 1999. Nearly a year before his deposition, Rominski had indicated to the court by affidavit that around 1995 Crater had submitted to Lucent "prototype designs for their version of a quick disconnect coupler (the 'Crater coupler')." At the deposition, Rominski identified drawings of the Coupler he had sent to and received from Crater and identified other employees involved in designing and making the Coupler.

On August 25, 1999, the district court dismissed Crater's claims for patent infringement, breach of contract, and misappropriation of trade secrets. (App. D.)

On June 6, 2001, the Federal Circuit affirmed as to the patent infringement claim, but reversed and remanded the dismissal of latter two claims. (App. C.)

On October 1, 2002, based in part upon the uncontradicted testimony that the Coupler and wetmate had never been classified and the public programs on the Coupler and wetmate, featuring the "see-though" wetmate, Crater moved to dissolve the Second Protective Order. Crater argued that "large amounts of information, purportedly subject to the Second Protective Order, have been made public with

the consent of the government," and that "[a]ny State Secret Privilege protective order must be mutual." The government responded that the public presentations concerning the Coupler and wetmate, and the testimony describing the design and components of the Coupler and wetmate, did not reveal secret or privileged information.

On March 23, 2003, following Crater's renewed discovery, Acting Secretary of the Navy Hansford T. Johnson submitted a Declaration and Claim of Military and State Secrets Privilege of. But Johnson's declaration did nothing to cure the deficiencies in his predecessor's declaration, i.e., Johnson did not claim to have actually looked at the documents claimed to be privileged. Instead, he averred that "[g]overnment officials have examined the documents covered by the military and state secrets privilege which may be responsive to plaintiff's discovery." He contended that "none of the documents responsive to plaintiff's discovery, and no portion of any document," could be produced without violating the Privilege.

Despite earlier statements to Crater to the contrary, and despite stating in court that public presentations featuring the wetmate had occurred, the government insisted at a December 2, 2003 motion hearing that all aspects of the Coupler were secret and that revealing any information about it would somehow jeopardize national security. The government even claimed the pleadings and filings in the public district court file were privileged, because "the line has to be drawn somewhere." The government assembled approximately 26,000 documents or pages of documents, which the court agreed to review. After reviewing the

assemblage, it was apparent to the court "that no one in the government had even looked at these documents." The court added,

> It just seemed so clear to me that if a pleading that's in the court files and correspondence that has been produced from plaintiff's file in this case, I just cannot imagine how, since everything in this case is under protective order, how that could possibly damage national security by disclosing it.

The court agreed, however, to delay issuing a ruling.

On December 9, 2003, Lucent and AT&T moved to dismiss based upon the Privilege. Over Crater's opposition, on February 19, 2004, the court granted the motion to dismiss, denied Crater's motion to dissolve the Second Protective order (App. B), and entered judgment accordingly.

On appeal, Crater argued, inter alia that the district court improperly applied that state secrets privilege, because (1) the government failed to meet the minimum threshold requirements for asserting the privilege, and (2) the materials for which the government sought protection did not constitute military or state secrets. Crater also argued that the court erred when it dismissed the action upon the Privilege because the relevant information about what Lucent and AT&T did for the government was not secret and had already been disclosed with the government's permission. The government responded that "[t]he Acting Secretary of the Navy was not required . . . to review personally all 26,000 pages of potentially responsive documents; it sufficed that the Acting

Secretary reviewed a representative sample."[4] The government maintained that to invoke the privilege properly, the department head is not required to have personal knowledge of the contents of every document at issue.

In a divided panel opinion, the Federal Circuit recognized that *Reynolds* requires "actual personal consideration" by the department head, but the court did not strictly apply Supreme Court precedent. Instead, the panel majority ruled that the governmental department heads were not personally required to review any document at issue as a prerequisite for proper invocation of the Privilege. The panel majority found it sufficient that the department heads "were informed of the nature and scope of the documents sought in discovery," and that each then determined that disclosure of the material sought would jeopardize a state secret and threaten national security. (App. A at 12a.) But the sole case the Federal Circuit cited in support of its finding the government has properly invoked the Privilege, *Northrop Corp. v. McDonnell Douglas Corp.*, 751 F.2d 395, 400 (D.C. Cir. 1984), held that the Privilege was properly invoked when the department head "stated that he had reviewed a representative sample of the documents as well as affidavits of staff members who had received all of the documents." (*Id.*)

Next, the Federal Circuit addressed the dismissal order, stating that "existence of a trade secret is a prerequisite to a claim for misappropriation of trade secrets." (*Id.* at 16a.) But the court found, "it has not been established precisely what, if any, trade secrets exist in connection with the Coupler." (*Id.*) The court indicated "that deciding the [i]mpact of the

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4. The government's contention that Johnson reviewed a representative sample of the documents lacks evidentiary support.

government's assertion of the state secrets privilege on Crater's state law claims without first determining what trade secrets exist and whether a contract existed between Crater and Lucent is akin to putting the cart before the horse." (*Id.* at 17a.) It reversed and remanded for "further proceedings," stating that "[i]f Crater establishes that it has one or more trade secrets in connection with the Coupler, the district court will know precisely what the secrets are." (*Id.* at 18a.)

REASONS FOR GRANTING THE PETITION

I. THE FEDERAL CIRCUIT MISAPPLIED THE MILITARY AND STATE SECRETS PRIVILEGE BY PERMITTING THE GOVERNMENT TO ASSERT THE PRIVILEGE WHEN DEPARTMENT HEAD AFFIANTS DID NOT CLAIM TO HAVE SEEN AND CONSIDERED A SINGLE DOCUMENT

A. An Important Federal Question was Decided in Contravention of Longstanding Precedent from *United States v. Reynolds*, 345 U.S. 1 (1953)

A common law evidentiary rule—the Privilege—permits the United States to "block discovery in a lawsuit of any information that, if disclosed, would adversely affect national security." *See McDonnell Douglas Corp. v. United States*, 323 F.3d 1006, 1021 (Fed. Cir. 2003); *Ellsberg v. Mitchell*, 709 F.2d 51, 56 (D.C. Cir. 1983). The "information protected under the state secrets doctrine includes information that would result in impairment of the nation's defense capabilities, disclosure of intelligence-gathering methods or capabilities, and disruption of diplomatic relations with foreign governments." *In re United States*, 872 F.2d 472, 476

(D.C. Cir. 1989) (quotations omitted). The Privilege "is well established in the law of evidence." *United States v. Reynolds*, 345 U.S. 1, 7-8 (1953).

The Privilege is as a "drastic remedy that has rarely been invoked." *See Fitzgerald v. Penthouse Int'l, Ltd.*, 776 F.2d 1236, 1242 (4th Cir. 1985); *accord Halkin v. Helms*, 598 F.2d 1, 14 n.9 (D.C. Cir. 1978) ("[T]he state secrets privilege . . . has surfaced only rarely in the United States."). However, the government has been invoking the Privilege with increasing frequency. *See, e.g., Tenet v. Doe*, 544 U.S. 1 (2005); *Sterling v. Tenet*, 416 F.3d 338 (4th Cir. 2005), *cert. denied, Sterling v. Goss*, 126 S. Ct. 1052 (2006); *Tenenbaum v. Simonini*, 372 F.3d 776 (6th Cir.), *cert. denied*, 543 U.S. 1000 (2004); *Darby v. United States Dep't of Defense*, No. 02-1612574, 74 Fed. Appx. 813 (9th Cir.) (unpublished), *petition for cert. filed*, No. 03-8342 (Oct. 27, 2003); *Edmonds v. United States Dep't of Justice*, 405 F. Supp. 2d 23 (D.D.C. 2005); *Burnett v. Al Baraka Inv. & Dev. Corp.*, 323 F.Supp.2d 82 (D.D.C. 2004); *see generally*, J. Steven Gardner, *Comment: The State Secret Privilege Invoked in Civil Litigation: A Proposal for Statutory Relief*, 29 Wake Forest L. Rev. 567, 567-68, 585-86 (Summer 1994); Note, *The Military and State Secrets Privilege: Protection for the National Security or Immunity for the Executive?*, 91 Yale L.J. 570 (1982).

While invocation of the Privilege is becoming a common occurrence, the evidence upon which *Reynolds*, the leading case on the Privilege, was based, i.e., affidavits and a sworn formal claim of privilege, has recently been called into question. One of the widows and two children of the men who died in the Air Force plane crash that led to *Reynolds* more than half a century ago filed suit upon learning that the

evidence upon which the Privilege claim was rooted was untrue. Their petition for a writ of certiorari is still pending. *See Herring v. United States*, 424 F.3d 384 (3d Cir.), *petition for cert. filed*, 74 U.S.L.W. 3395 (U.S. Dec. 21, 2005) (No. 05-821).

As to the issue at hand, in *Reynolds*, the Supreme Court outlined three threshold requirements for invoking the Privilege:

> [t]here must be a (1) formal claim of privilege (2) lodged by the head of the department which has control over the matter, (3) *after actual personal consideration by that officer.*

345 U.S. at 8 (numbers and emphasis added; footnotes omitted).

The United States Supreme Court clearly defined the "actual personal consideration" requirement:

> [t]he essential matter is that the decision to object should be taken by the minister who is the political head of the department, *and that he should have seen and considered the contents of the documents* and himself have formed the view that on grounds of public interest they ought not to be produced. * * *

Id. at 8 n.20 (quoting *Duncan v. Cammell, Laird & Co.*, (1942) A.C. 624, 638 (emphasis added)).

Because of the serious potential for defeating worthy claims for violations of rights that would otherwise be proved, the Privilege is "not to be lightly invoked." *Reynolds*,

345 U.S. at 7. In this case, the Privilege was lightly and incorrectly invoked. As explained in greater detail the Statement of the Case, the government provided declarations from two department heads, Danzig and Johnson, neither of whom in public declarations claimed to have seen—much less given actual personal consideration—to the documents the government sought to prevent being disclosed. In fact, the government's counsel admitted the government did not know what documents Lucent and AT&T necessarily had in their possession were or what information or breadth of the information Crater wanted from them.[5]

Given that the Privilege can erect an insurmountable roadblock to meaningful access to the judicial system, *Reynolds*—if it is to stand for anything beyond raw executive power—must require at least a minimal check on such power. Long ago, the Court recognized that the Privilege doctrine is a "formula of compromise." *See id.* at 9. There will be no compromise, however, if the Court lets stand the Federal Circuit's evisceration of the "actual personal consideration" requirement.

In addition, the greater implications of allowing the government to skirt *Reynolds*'s safeguards are real and substantial. If an unscrupulous agency employee were to mislead the department head as to the nature of the documents

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5. Although Crater has not been made privy to Danzig's secret affidavit, the panel majority and minority opinions clearly suggest the affidavit did not indicate Danzig had personally reviewed any documents sought to be shielded by the state secrets privilege. Moreover, the government did not specifically contend that the secret affidavit was based on actual personal review of any documents. In oral argument, the government conceded the agency heads had never reviewed any document.

sought to be shielded by the Privilege, and the department head were permitted simply to submit an affidavit relying on the subordinate's summary of the documents, the purpose behind requiring a formal claim of privilege lodged by the head of the department with control over the matter would be subverted. *Cf. Marriott Int'l Resorts, L.P. v. United States*, No. 05-5046, 2006 WL 258458, *4 (Fed. Cir. Feb. 3, 2006) ("Of most importance" why agency head may delegate authority to invoke deliberative process privilege on agency's behalf is that "the state secrets privilege is an absolute privilege; the deliberative process privilege is not."). The affidavit, even if offered innocently, would be predicated upon a lie. The department head, not having seen and considered the actual documents, could escape accountability. Thus, the Supreme Court's threshold requirements that there be a "formal claim of privilege, lodged by the head of the department which has control over the matter" would be rendered meaningless.

In the instant case, the two public affidavits indicate—and the government has conceded at oral argument—that the agency heads never reviewed a single document claimed secret.

B. To the Extent a Question Exists as to the Meaning of "Actual Personal Consideration" under *Reynolds*, the Court Should Settle this Important Question of Federal Law, Because the Federal Circuit Created a Rift with Other Circuits

1. District of Columbia Circuit Court of Appeals

Although *Reynolds* states that the political head of the department "should have seen . . . the documents," to the extent any doubt exists, the Court should settle this important question of federal law over which the circuits are in conflict. Specifically, the District of Columbia Circuit concluded that the Privilege was properly invoked when the department head averred "that he had reviewed a representative sample of the documents as well as affidavits of staff members who had received all of the documents." *See Northrop Corp.*, 751 F.2d at 400. The District of Columbia Circuit's conclusion overlooked the Supreme Court's "seen and considered the contents" requirement.

In any event, *Northrop* did not stretch the Supreme Court's "actual personal consideration" requirement nearly as thin as did the Federal Circuit's panel majority, which was satisfied that the department heads were "informed of the nature and scope of the documents." Thus, *Northrop*—the sole case upon which the Federal Circuit based determination of the consideration issue—does not stand for the proposition for which the Federal Circuit cited it.[6]

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6. The Fourth Circuit's stance on the issue is difficult to discern, because the affidavit language it has addressed was more specific than those at issue in this case. *See, e.g., Bowles v. United States*, 950 F.2d 154, 156 (4th Cir. 1991) (per curiam)

(Cont'd)

2. Third Circuit Court of Appeals

The Third Circuit does not appear to have addressed *Reynolds* in the context of a state secrets case. Given its application of the test in *United States v. O'Neill*, 619 F.2d 222 (3d Cir. 1980), however, that court would be hard pressed to find that department heads need not personally review the documents at issue. *O'Neill* concerned invocation of the executive privilege, but the court correctly noted that *Reynolds*'s "prerequisites for formal invocation of the privilege have been uniformly applied irrespective of the particular kind of executive claim advanced." *Id.* at 226 (quoting *Carter v. Carlson*, 56 F.R.D. 9, 10 (D.D.C. 1972)). After citing with approval *Smith v. FTC*, 403 F. Supp. 1000, 1010 (D. Del. 1975), which stated that the agency head claiming the privilege "must personally review the material," the Third Circuit ruled against the government, finding "no indication . . . that the department heads made the type of personal careful examination which must precede invocation of the privilege." *O'Neill*, 619 F.2d at 226.

3. Eighth Circuit Court of Appeals

Characterizing the invocation of the Privilege as "a process safeguarded by the Supreme Court's requirement that the head of the relevant government department make

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(Cont'd)

> The Secretary of State . . . properly invoked the privilege by stating that he was 'asserting a formal claim of privilege . . . based upon information conveyed to [him] by United States Government advisers in the course of their official duties and upon *[his] own personal determination* that the nature of the information in question require[d] an assertion of privilege.'.

a formal claim after *personal perusal* of the matter," *Black v. United States*, 62 F.3d 1115, 1119 (8th Cir. 1995) (emphasis added; citing *Reynolds*, 345 U.S. at 7-8), *cert. denied*, 517 U.S. 1154 (1996), the Eighth Circuit's careful word selection reveals that court's interpretation of *Reynolds*. The word "peruse" is commonly defined as meaning, "[t]o read, esp. with great attention." *See* Webster's II New Riverside University Dictionary 523 (1984).

4. Ninth Circuit Court of Appeals

In *Kerr v. United States District Court for Northern District of California*, 511 F.2d 192 (9th Cir. 1975), *affirmed*, 426 U.S. 394 (1976), the Ninth Circuit addressed the third prong of the *Reynolds* test in a state secrets case, leaving no doubt that the department head must conduct a personal review of the material at issue. *Kerr* stemmed from a discovery dispute in a civil rights action brought by seven California state prisoners against the members of the California Adult Authority, state administrative officers, their agents, employees and successors in interest. *Id.* at 194-95. The defendants, i.e, petitioners, instituted a mandamus or prohibition proceeding pursuant to the All Writs Act, 28 U.S.C. § 1651. *See id.* at 194. They contended that the Privilege shielded them from having to produce requested personnel files. *See id.* at 196, 198.

The Ninth Circuit concluded that it did "not have to reach the question of whether this privilege extends to these documents," as that the "governmental privilege must be formally asserted and delineated in order to be raised properly." *Id.* at 198. After noting that no agency official had asserted any privilege in the district court, the Ninth Circuit quoted the Supreme Court's "seen and considered

the contents of the documents" requirement and declared *Reynolds* "illustrative." *Id.* Finally, the court denied the petition. *Id.* at 199.

Although the Supreme Court affirmed the Ninth Circuit's orders, *see Kerr*, 426 U.S. at 406, the Court narrowly focused on the issues presented and did not address the level of specificity required by *Reynolds*. Instead, the Court simply summarized the decision below: "the Court of Appeals indicated that because the assertions of privilege were not personally made by high-level officials of the California Adult Authority and because the assertions of privilege were lacking in what it saw to be the requisite specificity, issuance of the writ on grounds of privilege was inappropriate." *Id.* at 399.

In the instant action—as opposed to *Kerr*—the level of specificity required by *Reynolds* is paramount.

5. Federal District Courts

Not only does the Federal Circuit's contrary interpretation of *Reynolds* conflict with federal appellate court decisions, it also conflicts with district court opinions. For example, in *Kinoy v. Mitchell*, 67 F.R.D. 1 (S.D.N.Y. 1975), the government submitted two affidavits in support of its state secrets claim. *Id.* at 5-6. Upon thorough review of the affidavits, the district court concluded, "[i]t does not appear . . . that the Attorney General personally considered *the material* as to which he lodged this claim of privilege and decided that it was a military or state secret." *Id.* at 7-9 (emphasis added). After quoting the seen-and-considered-the-contents requirement from *Reynolds*, the district court explained:

> [t]his is not, in the Court's view, a mere technical requirement. Because the Court must rely so heavily upon the judgment of the responsible executive officer in a case such as this, it must be clear that the judgment was properly exercised. At a minimum there must be an explicit representation to this effect.

Id. at 9. The court would not recognize the government's claim "until assertion of that claim is made by the Attorney General upon personal consideration." *Id.* at 10. Moreover, the court deemed a second affidavit "similarly defective as a formal claim of privilege because it contain[ed] no indication that the Attorney General personally considered the material. *Id.*

The District Court for the Middle District of Pennsylvania made its interpretation of *Reynolds* abundantly clear.

> In order to ensure that the executive official invoking the state secrets privilege has adequate knowledge of relevant facts, courts have held that to trigger review of such claims the person asserting the privilege must, at a minimum, make an explicit representation that he or she has *personally seen and considered the material.*

Yang v. Reno, 157 F.R.D. 625, 632 (M.D. Pa. 1997) (emphasis added; citing cases, including *Northrop Corp.*, 751 F.2d at 405).

C. Conflict with a State Supreme Court Decision

In the first Vermont case to recognize the "investigatory files privilege," *Douglas v. Windham Superior Court*, 157 Vt. 34, 49 (Vt. 1991), the Vermont Supreme Court applied *Reynolds* and adopted the Third Circuit's view as to the requisite consideration by the agency head. Noting that "[t]he purpose of the requirement [that the agency head must invoke the privilege], in part, is to ensure that the agency head has considered the documents involved and developed 'precise and certain reasons for preserving' the confidentiality of the communications," the court held that the requisite declaration or affidavit "must be based on personal review of the documents by an official in the police agency." *Douglas*, 157 Vt. at 41, 44 (quoting *O'Neill*, 619 F.2d at 226 (internal quotations omitted from first quotation)).

II. THE MILITARY AND STATE SECRETS PRIVILEGE WAS INAPPLICABLE BECAUSE THE MATERIALS FOR WHICH THE GOVERNMENT SOUGHT PROTECTION DID NOT CONSTITUTE MILITARY OR STATE SECRETS AND HAD ALREADY BEEN DISCLOSED

To block discovery, the government must show the court there is a "reasonable danger that compulsion of the evidence will expose military [or state] matters which, in the interest of national security, should not be divulged." *Reynolds*, 345 U.S. at 10. It must also show that the requested materials are actually secret. If the government or its agents have voluntarily revealed those materials, they are, *ipso facto*, no longer secret and the Privilege is waived. *See National Lawyers Guild v. Attorney Gen.*, 96 F.R.D. 390, 402 (S.D.N.Y. 1982) (prior disclosure of the specific information

sought to be disclosed waives Privilege); 26 C. Wright, A. Miller, & E. Cooper, *Federal Practice and Procedure* § 5665 ("[I]f the matter has been disclosed, it is not a 'secret' and there is no privilege for the government to waive."). Moreover, "the determination of its secrecy is made as of the time of trial, not at some time in the past." 26 C. Wright, A. Miller, & E. Cooper, § 5665.

The uncontradicted evidence in this case, derived from two depositions and numerous documents, demonstrates that the Second Protective Order improperly shielded from discovery nonsecret information and documents intentionally disclosed by the government before and during case proceedings. For example, Nagengast gave public presentations about the wetmate and Coupler to large audiences at Lucent without concern for whether his audience had security clearances. To aid in the presentations, he even used a "see-through" wetmate. He also knew that the wetmate connector and the Coupler portion of it were never classified. In fact, the government had given him permission to make the presentations. Nagengast's testimony makes clear the perversion of the Privilege the court permitted. Crater seeks the very information—nonsecret information—about which Nagengast, without security clearances, received governmental permission to give public presentations.

Rominski, another Lucent employee, gave detailed testimony via affidavit and deposition about the Coupler and the wetmate. At his deposition, Rominski identified drawings of the Coupler he had sent to and received from Crater and identified other employees involved in designing and making the Coupler.

Nor would disclosure of information relating to the Coupler threaten national security, because the government claimed to have no interest in the Coupler and correspondence about the Coupler was freely exchanged. Four unclassified letters exchanged between the parties before this lawsuit was filed (three of which were authored by the government) demonstrate that the government's claim of secrecy was unfounded. Those letters identified the number of coupling devices provided to the government and repeatedly stated that the government was not going to use the Coupler in a classified program. According to the government and Lucent, the coupler actually used in the secret naval program was not the Coupler and was not manufactured by Lucent or AT&T.

According to the clear law, the nonsecret information cannot be subject to the Privilege. *See Ellsberg*, 709 F.2d at 57; 26 C. Wright, A. Miller, & E. Cooper, § 5665. The Privilege does not apply here because Lucent's and AT&T's information relating to the Coupler was not classified and had not been kept secret.

III. BY REVERSING THE GRANT OF A MOTION TO DISMISS YET REMANDING FOR "FURTHER PROCEEDINGS" FOR THE COURT TO DETERMINE FACTS AND STRENGTH OF CLAIMS IN WHICH CRATER CORPORATION IS TO ESTABLISH THAT IT HAS TRADE SECRETS, THE FEDERAL CIRCUIT VIOLATED CRATER'S SEVENTH AMENDMENT RIGHT TO HAVE A JURY MAKE THAT DETERMINATION AND SO FAR DEPARTED FROM THE USUAL COURSE OF JUDICIAL PROCEDINGS AS TO CALL FOR AN EXERCISE OF THIS COURT'S SUPERVISORY POWER

"'An essential characteristic of (the federal system) is the manner in which, in civil common-law actions, it distributes trial functions between judge and jury * * * (assigning) the decisions of disputed questions of fact to the jury.'" *Magenau v. Aetna Freight Lines, Inc.*, 360 U.S. 273, 278 (1959) (quoting *Byrd v. Blue Ridge Rural Elec. Coop., Inc.*, 356 U.S. 525, 537 (1958)).

After misinterpreting the Court's threshold test for invoking the Privilege, the Federal Circuit apparently eviscerated Crater's right to a jury trial by ordering *sua sponte* a new type of district court proceeding. *Cf. Garcia v. Murphy Pac. Marine Salvaging Co.*, 476 F.2d 303, 306 (5th Cir. 1973) (federal district court cannot predetermine facts for jury). At the very least, the panel placed yet another unsupportable obstacle between Crater and its right to jury trial. The panel stated:

> Although we agree that there is a state secret here that must be protected, we conclude that

> further proceedings are required because we do not believe the record in the case—as it relates to Crater's two state law claims—is sufficiently developed to enable a determination as to the effect of the government's assertion of the privilege on those claims, in terms of Crater's ability to assert the claims and Lucent's ability to defend against them. If Crater establishes that it has one or more trade secrets in connection with the Coupler, the district court will know precisely what the secrets are.

(App. A at 18a.) Such "proceedings"—which are neither identified by statute, procedural rules, case law, nor the Constitution—apparently take away Crater's well established right to have a jury determine the existence of a trade secret in connection with its coupler. *See Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 723 (7th Cir. 2003) ("[T]he question of whether certain information constitutes a trade secret ordinarily is best 'resolved by a fact finder after full presentation of evidence from each side.'"); *see also General Universal Sys., Inc. v. Lee*, 379 F.3d 131, 150 (5th Circ. 2004) (trade secret is question of fact); *North Atl. Instruments, Inc. v. Haber*, 188 F.3d 38, 44 (2d Cir. 1999) (trade secret is question of fact). Moreover, the Federal Circuit failed to indicate what standards and burden would govern the additional proceedings.

Further, as Judge Newman recognized, the majority opinion "devised a remedy impossible of performance." (App. A at 23a (Newman, J., concurring in part and dissenting in part).) To the extent the state secrets claim extends to the information Crater provided to Lucent in connection with this project, it is covered by the protective order the Federal

Circuit upheld. Crater is apparently to prove its case, to the court, without discovery, and only after proving its case will discovery be provided. Thus, Crater is hindered in its ability to establish its trade secret. Furthermore, no precedent or Federal Rule of Civil Procedure supports the conducting of a trial before discovery.

Finally, numerous cases have held that the Privilege exists and operates independent of the strength of the plaintiff's case. *See, e.g., Kasza v. Browner*, 133 F.3d 1159, 1166 (9th Cir.), *cert. denied*, 525 U.S. 967 (1998); *McDonnell Douglas Corp.*, 323 F.3d at 1021, *Ellsberg*, 709 F.2d at 57.

CONCLUSION

The judgment of the Federal Circuit should be reversed for the following reasons:

1. the government did not satisfy the Supreme Court's "actual personal consideration" requirement from *Reynolds* when the department head affiants did not claim to have seen and considered a single document;

2. the Privilege does not apply to the discovery of nonsecret information and documents intentionally disclosed by the government and with the government's permission before and during case proceedings; and

3. the circuit court violated Crater's constitutional right to a jury trial when it remanded to the district court for judge determinations of fact and strength of claims not countenanced by statute, case law, or the Constitution.

Respectfully submitted,

ROBERT SCHULTZ
Counsel of Record
RONALD J. EISENBERG
SCHULTZ & LITTLE, L.L.P.
640 Cepi Drive, Suite A
Chesterfield, MO 63005
(636) 537-4645

Counsel for Petitioner

APPENDIX

APPENDIX A — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DECIDED SEPTEMBER 7, 2005

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 04-1349

CRATER CORPORATION,

Plaintiff-Appellant,

v.

LUCENT TECHNOLOGIES, INC.
and AT & T COMPANY,

Defendants-Appellees,

and

UNITED STATES,

Defendant-Appellee.

DECIDED: September 7, 2005

Before NEWMAN, SCHALL, and DYK, *Circuit Judges.*

Opinion for the court filed by *Circuit Judge* SCHALL. Opinion concurring in part, dissenting in part filed by *Circuit Judge* NEWMAN.

Appendix A

SCHALL, *Circuit Judge.*

Crater Corporation ("Crater") sued Lucent Technologies, Inc. and AT & T Company (collectively, "Lucent") in the United States District Court for the Eastern District of Missouri, alleging that Lucent infringed Crater's U.S. Patent No. 5,286,129 (the " '129 patent"). The '129 patent is directed to an underwater coupling device (the "Crater coupler"). Crater also asserted state law claims against Lucent for misappropriation of trade secrets and breach of contract.

In an earlier decision, we affirmed the district court's dismissal of Crater's patent infringement claim. *See Crater Corp. v. Lucent Techs., Inc.*, No. 4:98CV00913 (E.D.Mo. Aug. 25, 1999) (order dismissing Crater's claims) (" *Crater I* "); *Crater Corp. v. Lucent Techs., Inc.*, 255 F.3d 1361 (Fed.Cir.2001) (affirming the dismissal of Crater's patent infringement claim) ("*Crater II*"). However, we vacated the court's dismissal of Crater's state law claims and remanded the case for further consideration of those claims. *Crater II*, 255 F.3d at 1371. On remand, the district court determined that the government's proper assertion of the Military and State Secrets privilege (the "state secrets privilege") made it impossible for Crater to engage in discovery or to make out a prima facie case of misappropriation of trade secrets or breach of contract. *Crater Corp. v. Lucent Techs., Inc.*, No. 4:98CV00913 (E.D.Mo. Feb. 19, 2004) ("*Crater III*"). At the same time, the court held that the government's assertion of the privilege made it impossible for Lucent to defend against Crater's claims. *Id.*, slip op. at 4-7. The court therefore dismissed Crater's remaining claims. Crater now appeals the district court's decision.

Appendix A

On appeal, Crater makes essentially two arguments. The first is that the district court erred in allowing the government to assert the state secrets privilege. The second is that, assuming the privilege was properly asserted, the court nonetheless misapplied the privilege in its discovery ruling and in its decision to dismiss the case. As far as the first issue is concerned, we see no error in the court's decision sustaining the government's assertion of the state secrets privilege. However, for the reasons set forth below, we conclude that the district court did err in dismissing Crater's suit. We therefore reverse the court's decision and remand the case for further proceedings consistent with this opinion.

BACKGROUND

I.

The technology involved in this dispute relates to underwater connectors for fiber optics. The Crater coupler can be incorporated into an underwater fiber optic "wetmate." Crater describes a wetmate as essentially a device which connects and disconnects fiber optics beneath the sea.

In its complaint, Crater alleged the following facts, which, for purposes of this appeal, we accept as true: Lucent employees contacted the Crater inventors and asked them to provide technical data, drawings, and other information relating to the Crater coupler. The information and drawings are Crater's confidential trade secrets. Lucent expressly agreed not to reveal the information to third parties. It further agreed that Lucent would only use Crater's confidential

information for further research and that it would not produce the Crater coupler until a license agreement was finalized. Lucent also agreed to produce and to provide Crater with copies of computer-aided design ("CAD") drawings and solid models of Crater technology. Lucent violated its agreement with Crater by producing an infringing coupler, by disseminating Crater's confidential information and trade secrets to third parties, and by failing to provide Crater with the requested CAD drawings and solid models.

II.

Crater filed suit against Lucent in the Eastern District of Missouri in May of 1998. Crater's first amended complaint alleged patent infringement and asserted state law claims of misappropriation of trade secrets and breach of contract. On March 11, 1999, the government moved to intervene in the case in order to assert the state secrets privilege. Specifically, the government sought to prohibit Crater "from conducting any discovery or serving any subpoena for information relating to the manufacture or use of [Crater's] coupling device, or any coupling device, by or on behalf of the United States." The government urged that disclosure of such information would gravely damage national security.

In support of its motion, the government submitted two declarations (one classified, one public) from Richard J. Danzig, then-Secretary of the Navy. Mr. Danzig's public declaration explained:

> 2. My statements in this Declaration are based on my personal knowledge, on information provided

to me in my official capacity, and on my evaluation of that information.

* * *

6. [P]laintiff's discovery in this case could be expected to cause extremely grave damage to national security. Requiring defendants and the private subpoena recipients to respond to plaintiff's discovery would, directly or indirectly, provide adversaries of the United States Government with information concerning the operations and programs described in my classified declaration. Those operations and programs are currently ongoing. It is therefore my opinion that disclosure of information concerning them would permit potential adversaries to adopt specific measures to defeat or otherwise impair the effectiveness of those operations and programs.

* * *

7. Based on my personal consideration of the matter, requiring responses to plaintiff's discovery . . . reasonably could be expected to cause extremely grave damage to the vital national security interests of the United States. Accordingly, I formally invoke the military and state secrets privilege . . . .

Mr. Danzig also submitted a classified declaration to the district court for inspection *in camera*. On March 16, 1999, the district court granted the government's motion to intervene. Subsequently, on March 24, 1999, after reviewing Secretary Danzig's classified declaration, the court granted the government's request for a protective order. The court stated:

> Having reviewed the documents in the possession of the Government in camera, the Court concludes that the United States is entitled to assert the state secrets privilege in this case. The Court finds that exposure of the information sought by plaintiff's discovery requests would cause extremely grave damage to national security.

Accordingly, the court ordered that Crater was "prohibited from conducting any discovery or serving any subpoena for information relating to the manufacture or use of plaintiff's coupling device, or any coupling device, by or on behalf of the United States."

Subsequently, Lucent moved to dismiss Crater's suit, citing 28 U.S.C. § 1498(a) (2000).[1] Lucent argued that any

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1. That statute provides, in pertinent part:

> Whenever an invention described in and covered by a patent . . . is used or manufactured by or for the United States without license of the owner thereof . . . the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for

(Cont'd)

potentially infringing use of Crater's device was exclusively "for the United States," and that Crater's proper remedy was to sue the government in the United States Court of Federal Claims. Thus, Lucent argued that the district court lacked jurisdiction over Crater's patent infringement claim. In addition, Lucent argued that without federal question jurisdiction, the district court did not have jurisdiction over Crater's state law claims because the parties lacked diversity.

Ruling on Lucent's motion, the district court determined that it lacked jurisdiction over all of Crater's claims. *See Crater I.* On appeal, we affirmed the dismissal of Crater's patent infringement claims, although for a different reason. *See Crater II*, 255 F.3d at 1363. We held that 28 U.S.C. § 1498(a) provides a private party performing contract work for the government with an affirmative defense against patent infringement. As such, "dismissal of a lawsuit against a private party pursuant to § 1498(a) is a dismissal because of the successful assertion of an affirmative defense rather than a dismissal because of the district court's lack of subject

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(Cont'd)

> the recovery of his reasonable and entire compensation for such use and manufacture.
>
> * * *
>
> For the purposes of this section, the use or manufacture of an invention described in and covered by a patent ··· by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

matter jurisdiction over the patent infringement claim." *Id.* at 1364. We held that dismissal of Crater's patent infringement claim on summary judgment was proper because Lucent had successfully asserted section 1498(a) as an affirmative defense. *Id.* at 1369.

However, because the district court had original jurisdiction over Crater's patent infringement claim, the court had supplemental jurisdiction to adjudicate Crater's state law claims of misappropriation of trade secrets and breach of contract. We therefore vacated the dismissal of those claims and remanded the case for the district court to consider, in its sound discretion, whether to exercise supplemental jurisdiction over those claims. *Id.* at 1370. Thus, our decision in *Crater II* did not reach the merits of Crater's state law claims, nor did it reach the issue of whether the government had properly invoked the state secrets privilege. *See id.*

III.

On remand, the district court chose to exercise supplemental jurisdiction. *See Crater III,* slip op. at 3. In due course, Crater moved for the court to dissolve the protective order entered on March 24, 1999. In its motion, Crater contended that the government had consented to disclosure of some of the information subject to the order. *Id.* Specifically, Crater argued that Lucent employees had testified in depositions that (i) the Crater coupler and the wetmate of which it was a part did not constitute a classified government secret; and (ii) the coupler/wetmate had been shown at internal company meetings to individuals without security clearances. Lucent responded that, to its knowledge,

none of the incidents to which Crater referred involved the disclosure of information subject to the state secrets privilege.

At a November 2002 hearing, the district court ordered Crater to submit discovery requests to Lucent and the government. After reviewing the approximately 26,000 documents responsive to the requests, the government took the position that it could not satisfy any of Crater's discovery requests without jeopardizing national security. At another hearing in May of 2003, the district court agreed to conduct an *in camera* inspection of the 26,000 documents. *Crater III*, slip op. at 4. When the court completed its inspection, it ordered the government to disclose some of the documents to Crater. The government resisted, arguing that releasing even a small portion of the documents would harm national security. *Id.* Following a hearing for the government to show cause why it should not be required to turn over the documents, the court reviewed the classified declarations of then Acting Secretary of the Navy Johnson and another government official.

Following its review of the classified material, the district court rendered its decision dismissing Crater's complaint. *See Crater III.* The court reasoned that, although Crater would not have to prove the particular use of its trade secrets in order to prevail on its misappropriation of trade secrets claim, it would have to show that Lucent somehow incorporated its design information in a classified government device. The court also determined that "all of Crater's breach claims except one require Crater to prove what the defendants did for the government." *Id.*, slip op. at 6. With regard to the remaining claim — Crater's claim that defendants breached

a promise to give Crater CAD drawings and solid models — that claim "accuses the defendants of failing to provide drawings and models of a device that the government has asserted is a state secret." *Id.* The court also noted that, in light of the government's proper invocation of the state secrets privilege, Lucent would not be able to adequately defend itself because it would not be able to disclose what it did or did not do for the government. *Id.*, slip op. at 6-7. Crater timely appealed the district court's final decision. Although Crater's patent infringement claim has been dismissed with prejudice, we have jurisdiction over the pendant state law claims because the district court's original jurisdiction was based in part on 28 U.S.C. § 1338(a). *See*28 U.S.C. § 1295(a)(1); *Chamberlain Group, Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1190 (Fed.Cir.2004).

DISCUSSION

In challenging the district court's dismissal of its complaint, Crater raises two issues, which we address in turn.

I.

Crater argues first that the government did not properly invoke the state secrets privilege. "The Military and State Secrets privilege allows the United States to block discovery in a lawsuit of any information that, if disclosed, would adversely affect national security." *Crater II*, 255 F.3d at 1370. Indeed, "even the most compelling necessity cannot overcome the claim of privilege if the court is ultimately satisfied that military secrets are at stake." *United States v. Reynolds*, 345 U.S. 1, 11, 73 S.Ct. 528, 97 L.Ed. 727 (1953);

see also McDonnell Douglas Corp. v. United States, 323 F.3d 1006 (Fed.Cir.2003); *Ellsberg v. Mitchell,* 709 F.2d 51, 57 (D.C.Cir.1983). However, because of the "broad sweep" of the privilege, *Ellsberg,* 709 F.2d at 57, the Supreme Court has advised that the privilege "is not to be lightly invoked," *Reynolds,* 345 U.S. at 7, 73 S.Ct. 528. The privilege does not protect from discovery material that is not strictly necessary to prevent potential harm to national security. *Ellsberg,* 709 F.2d at 57.

For the privilege to be properly asserted, the head of the pertinent government department must formally invoke the privilege on behalf of the government. Then, after reviewing the declarations of government officials and the circumstances surrounding invocation of the privilege, the court must determine whether assertion of the privilege is appropriate. *McDonnell Douglas,* 323 F.3d at 1022.

Crater contends that "[t]he government failed to meet the threshold requirements for asserting the privilege because the government official charged with asserting the privilege never reviewed the materials sought to be protected or made any attempt to disentangle the secret from the non-secret." (Br. of Appellant at 28.) The government responds that, in order to properly invoke the privilege, the department head is not required to have personal knowledge of the contents of every document at issue. The government urges that the privilege was properly invoked in this case.[2]

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2. Lucent does not take a position on whether the government properly invoked the state secrets privilege. Lucent argues, however, that Crater's claims must be dismissed unless all of the evidence regarding Lucent's work for the United States is available, so that the parties may fully and fairly present their respective cases.

We agree with the government that Secretary Danzig and Acting Secretary Johnson were not required to personally review each and every one of the 26,000 documents at issue in order for the government to properly invoke the state secrets privilege. Although *Reynolds* requires that there be "actual personal consideration" by the head of the pertinent government department, 345 U.S. at 8, 73 S.Ct. 528, we think it sufficient that the Secretary of the Navy and later the Acting Secretary were informed of the nature and scope of the documents sought in discovery, and that each then made the ultimate policy determination, based on his personal knowledge, that disclosure of the material sought would jeopardize a legitimate state secret and would pose a threat to national security. *See Northrop Corp. v. McDonnell Douglas Corp.*, 751 F.2d 395, 400 (D.C.Cir.1984) (holding that the state secrets privilege was properly invoked when the department head "stated that he had reviewed a representative sample of the documents as well as affidavits of staff members who had received all of the documents").

We have reviewed both the public and classified declarations submitted to the district court in connection with the government's invocation of the state secrets privilege. Having done so, we are satisfied that the government claims a legitimate state secret. We therefore agree with the district court that in this case "'there is a reasonable danger that compulsion of the evidence will expose military matters which, in the interest of national security, should not be divulged.'" *McDonnell Douglas*, 323 F.3d at 1021 (quoting *Reynolds*, 345 U.S. at 10, 73 S.Ct. 528). Accordingly, we

see no error in the district court's determination that the government has properly invoked the state secrets privilege.[3]

II.

The second issue on appeal is whether, in light of the government's proper invocation of the state secrets privilege, the district court correctly determined that none of Crater's claims could proceed without impinging upon the privilege. The district court dismissed Crater's complaint after it determined that in view of the assertion of the privilege, Crater would not be able to prove its state law claims. The court reached this determination because it concluded that the March 24th protective order prevented Crater from discovering any relevant evidence related to its state law claims. As far as Lucent was concerned, the court stated:

> [T]here is no question that if the case proceeds, the defendants will be unable to adequately defend themselves. The defendants may not disprove Crater's allegations by stating what work they did for the government, nor could they show that they did not benefit from any alleged misappropriation. In short, the defendants may not be able to disclose what they did for the government, nor will they be able to deny what they did not do for the government, with respect to Crater's coupler.

Crater III, slip op. at 6.

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3. Crater argues that the district court improperly communicated *ex parte* with government counsel and that, for this reason, the government's invocation of the state secrets privilege should be rejected. We rejected this argument in *Crater II*. *See* 255 F.3d at 1371 n. 4.

Crater contends that the district court misapplied the state secrets privilege. Focusing upon the protective order, it argues that the order improperly shielded from discovery information and documents that were not secret, as well as documents that previously had been disclosed. Further, Crater urges, this error carried over to the court's dismissal of its complaint. Crater contends that much of the evidence the court determined could not be presented either was not secret in the first place or previously had been disclosed.

The government responds that although the patented Crater coupler obviously is not a state secret, the disclosure of information related to the manufacture or use, if any, of the coupler by or for the United States is a state secret. Lucent in turn argues that the assertion of the privilege hampers its ability to introduce adequate evidence to defend itself, for example, by showing what work it did do for the government.

III.

"Although harsh, the presence of a properly invoked state secrets privilege requires dismissal of [a] claim that cannot prevail without the privileged information." *McDonnell Douglas,* 323 F.3d at 1021. Resolution of whether any of Crater's claims can be adjudicated without privileged information turns on an analysis of the claims in light of the state secret that forms the basis for the government's assertion of the privilege. We think that, at this juncture, however, there is a fundamental obstacle to conducting that analysis. The obstacle lies, we believe, in the fact that the record as it

pertains to Crater's state law claims is not adequately developed. As we see it, the problem boils down to this:

The two claims remaining in Crater's complaint after our decision in *Crater II* were (i) that Lucent misappropriated one or more of Crater's trade secrets; and (ii) that Lucent breached a contract that it had with Crater. Missouri law defines misappropriation of a trade secret as:

> (a) Acquisition of a trade secret of a person by another person who knows or has reason to know that the trade secret was acquired by improper means; or

(b) Disclosure or use of a trade secret of a person without express or implied consent by another person who:

> a. Used improper means to acquire knowledge of the trade secret; or
>
> b. Before a material change of position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake; or
>
> c. At the time of disclosure or use, knew or had reason to know that knowledge of the trade secret was:
>
> > i. Derived from or through a person who had utilized improper means to acquire it;

> ii. Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
>
> iii. Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use.

Mo Rev. Stat. § 417.453(2). Clearly, existence of a trade secret is a prerequisite to a claim for misappropriation of trade secrets. Yet, as far as we can tell, it has not been established precisely what, if any, trade secrets exist in connection with the Crater coupler.[4] Indeed, it does not appear that Crater has even spelled out what trade secrets it claims in connection with the coupler. In any event, if the preliminary requirement of the existence of a trade secret is not met, Lucent obviously could not be liable for misappropriation of trade secrets. It would not be necessary to reach the state secrets issue.

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4. Mo. Rev. Stat. § 417.453(4) defines a "trade secret" as:

> Information, including but not limited to, technical or nontechnical data, a formula, pattern, compilation, program, device, method, technique or process that:
>
> (a) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use; and
>
> (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Turning to Crater's breach of contract claim, as far as we can tell, it has not been determined whether, under Missouri law, there was a contract between Crater and Lucent and, if there was a contract, what its terms were. Significantly, it appears that Lucent disputes the existence of a contract. (First Amended Complaint, Count 1 and Answer to First Amended Complaint ¶¶ 10-24; Lucent's Supplemental Answers and Objections to Crater's Interrogatories ¶ 12 ("Lucent states it is not aware of any 'contract' or 'agreement' in the sense of a written document formally entered into between Lucent and Crater.")) Obviously if there was no contract between Crater and Lucent, Lucent could not be liable for breach of contract. Again, it would not be necessary to reach the state secrets issue.

In short, we think that deciding the Impact of the government's assertion of the state secrets privilege on Crater's state law claims without first determining what trade secrets exist and whether a contract existed between Crater and Lucent is akin to putting the cart before the horse. If there are no alleged trade secrets and there was no contract, the issue of the state secrets privilege becomes moot. Alternatively, if there are trade secrets and/or there was a contract, an understanding of the precise nature of the trade secrets and the terms of the contract is essential to the analysis of whether Crater's misappropriation of trade secrets and breach of contract claims may proceed in the face of the assertion of the privilege. In other words, in order to adjudicate this case, there must be a determination of (i) the precise trade secrets that exist in connection with the Crater coupler; (ii) which of those trade secrets Crater alleges were misappropriated; (iii) whether a contract existed between

Crater and Lucent; (iv) if a contract did exist, its terms; (v) which of the contract's terms Crater alleges were breached; and (vi) what constituted the alleged breach.

In sum, we conclude that the decision of the district court dismissing Crater's complaint must be reversed and the case remanded to the court for further proceedings. Although we agree that there is a state secret here that must be protected, we conclude that further proceedings are required because we do not believe the record in the case-as it relates to Crater's two state law claims-is sufficiently developed to enable a determination as to the effect of the government's assertion of the privilege on those claims, in terms of Crater's ability to assert the claims and Lucent's ability to defend against them. If Crater establishes that it has one or more trade secrets in connection with the Crater coupler, the district court will know precisely what the secrets are. The government can then provide an affidavit or declaration-or otherwise address-how the precise questions involved, such as whether a particular trade secret was incorporated in a government device, would impermissibly implicate the state secrets privilege. Armed with that knowledge and with the knowledge of the state secret that must be protected, the court will be able to assess whether any misappropriation of trade secrets claim can go forward. As far as Crater's breach of contract claim is concerned, if the district court determines that a contract did exist between Crater and Lucent and what the terms of that contract were, the district court, again armed with its knowledge of the state secret that must be protected, will be able to determine which, if any, of Crater's breach of contract claims can proceed in the face of the government's assertion of the state secrets privilege. In making that

determination, the court may require the government to supply particularized affidavits or declarations in order to resolve the discovery issue.

Finally, the question of whether the state secrets privilege would be implicated by the production of particular documents is not ripe for resolution, and our discussion should not be read as resolving that question. We have not reviewed any of the documents which are sought in discovery and which the district court reviewed *in camera*. On remand, after the district court determines the precise nature of Crater's state law claims, it will be for that court then to determine, in the first instance, which, if any, of the documents sought in discovery may be produced in the face of the government's assertion of the state secrets privilege.

CONCLUSION

We see no error in the district court's determination that the government has properly invoked the state secrets privilege and that a valid state secret exists in this case. However, for the reasons set forth above, we reverse the court's dismissal of Crater's state law claims and remand the case to the court for further proceedings consistent with this opinion.[5]

---

5. Contrary to the dissent's view, our opinion is not a blanket ratification of the state secrets claim. We have said that the government has properly invoked the state secrets privilege and that there is a valid state secret to be protected. We also have said, however, that further proceedings are necessary in order to determine the impact of the invocation of the privilege on discovery and on Crater's ability to assert its state law claims and Lucent's ability to defend against those claims.

Appendix A

COSTS

Each party shall bear its own costs.

REVERSED and *REMANDED.*

Appendix A

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

No. 04-1349

CRATER CORPORATION,

Plaintiff-Appellant,

v.

LUCENT TECHNOLOGIES, INC.
and AT & T COMPANY,

Defendants-Appellees,

and

UNITED STATES,

Defendant-Appellee.

NEWMAN, Circuit Judge, concurring in part, dissenting in part.

I agree that further proceedings are warranted, and to that extent I concur in the remand. However, this court has placed obstacles to those proceedings that may be insurmountable in view of the court's endorsement, without review, of the full scope of the claim of state secrecy. Our order that Crater must identify and establish the secret information that it provided to Lucent in connection with

the Crater Coupler does not remove this information from the government's secrecy order.

The panel majority holds, without the review required by precedent, that "we see no error in the [district] court's decision sustaining the government's assertion of the state secrets privilege," op. at 1262, *ante;* that "the government has properly invoked the state secrets privilege and that a valid state secret exists in this case," *id.* at 1269; and that "we agree that there is a state secret here that must be protected," *id.* at 1268. None of us on this panel has inspected any of the information for which the claim is made, nonetheless ratifying the withholding of the 26,000 documents in the government's file, and ratifying the prohibitions on Lucent including disclosure of its use of Crater's information. It is far from clear that Crater can now place this information on the public record or otherwise implement this court's remand.

Thus there is a serious cloud on Crater's ability to describe the "trade secrets" that Crater provided to Lucent with the Crater Coupler, for the government has asserted that all information related to the Crater Coupler is a state secret. Indeed, if it is sensitive technology, that breadth of state secrecy may well be essential. The district court accepted the "state secrecy" of the 26,000 documents from the government's files, while remarking that they included such documents as pleadings that are in the public record. This court has seen only one of the 26,000 documents, which contains, as the majority opinion reports, only the general statement that (unidentified) documents were reviewed (by somebody unnamed) and claiming the state secret

privilege without limitation. There was no compliance with the requirement that the official invoking the privilege "must set forth, with enough particularity for the court to make an informed decision, the nature of the material withheld and of the threat to the national security should it be revealed." *Kinoy v. Mitchell,* 67 F.R.D. 1, 8 (S.D.N.Y.1975). If the claim is to be preserved in the breadth with which it is asserted, our appellate responsibility requires assuring ourselves of the scope and limits of the claim. Precedent has well clarified the requirements:

> [T]he privilege may not be used to shield any material not strictly necessary to prevent injury to national security; and whenever possible, sensitive information must be disentangled from nonsensitive information to allow for the release of the latter.

Ellsberg v. Mitchell, 709 F.2d 51, 57 (D.C.Cir.1983). In particular, and critical to this case, a valid state secrets claim need not deprive Crater of necessary relief.

I agree that Crater should have the opportunity to establish that it had trade secrets and that they were disclosed by Lucent to the government without authorization. However, the claim of military/state secrecy appears to extend to the information that Crater provided to Lucent in connection with this project, for if that information was indeed used by Lucent, as Crater asserts and Lucent does not deny, it is covered by the secrecy order. Thus we appear to have devised a remedy impossible of performance.

Appendix A

The remedy the panel has fashioned was not suggested by any party. The district court, having reviewed the government's documents, observed that Crater can not make its case, and Lucent can not make a defense, without violation of the secrecy order. Although the majority opinion states that "the question of whether the state secrets privilege would be implicated by the production of particular documents is not ripe for resolution and our discussion should not be read as resolving that question," op. at 1266, this statement is contradicted by the majority's blanket ratification of the state secret claim, adding confusion to risk.

This case raises important principles of law and procedure, for military and state secrets indeed warrant protection from the nation's enemies. At the same time, persons who serve the government must have a reasonable way of resolving disputes. It is neither in the nation's interest, nor can it be the nation's intention, to bar judicial relief when disputes arise among persons who serve sensitive government business. The merits of the dispute between Crater and Lucent are not before us; the only question is whether the dispute can be adjudicated at all.

The judicial obligation is to enable resolution, with safeguards appropriate to the subject matter. Although there may be areas of such sensitivity that no judicial exposure can be countenanced-such as, perhaps, the formation of the Manhattan Project-there is no suggestion that the sensitive information concerning the Crater Coupler can not be protected by well-established judicial procedures for preserving the security of sensitive information. Persons who do business with the government should not readily be barred

from access to judicial remedy, lest the government lose access to the talents of the private sector, and government reputation for fairness be diminished.

This case does not raise the constitutional debate about public trials; this is a commercial dispute, of interest only to the parties. It seems clear that the court's requested remand cannot be implemented without risk of violating the secrecy order, with possible penalty. This is the third judicial cycle of this simple dispute. We should remand this case for *in camera* proceedings that would protect the information from public disclosure, and allow this dispute to come to closure. Trials *in camera* of issues subject to secrecy restraints are not new, and such trial would be the appropriate procedure in this case.

APPENDIX B — MEMORANDUM AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MISSOURI, EASTERN DIVISION DATED FEBRUARY 19, 2004

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI,
EASTERN DIVISION

Case No. 4:98CV00913 ERW

CRATER CORPORATION,

Plaintiff,

v.

LUCENT TECHNOLOGIES, INC., and AT&T Company,

Defendants.

MEMORANDUM AND ORDER

WEBBER, J.

Before the Court is Plaintiff's Motion to Dissolve the Second Protective Order [doc. # 176] and Defendants' Motion to Dismiss [doc. # 235].

Several years ago, the defendants developed certain devices for the federal government on a classified Naval project. Crater Corporation brought this suit in 1998 alleging that the defendants infringed on its patent for an underwater

coupling device, and added state law claims for breach of contract and misappropriation of trade secrets. Essentially, Crater claimed that the defendants stole Crater's coupler design and incorporated it into the devices the defendants developed for the government. The defendants quickly moved to dismiss for lack of subject matter jurisdiction, and in the alternative, to dismiss for failure to state a claim upon which relief could be granted. Citing 28 U.S.C. § 1498(a), the defendants argued that they were not liable for patent infringement because any work they performed with respect to the Crater coupler was done under a government project and was authorized by the United States. That statute provides that a private party cannot be held liable for infringement for any goods used or manufactured by or for the United States; a plaintiff's only remedy in this situation is to sue the United States in the Court of Federal Claims.

Because Crater's patent claim was not properly before the Court, the defendants further claimed that the Court should dismiss Crater's state-law claims, having no basis to exercise supplemental jurisdiction over those counts. Shortly after Lucent filed this motion, Crater moved to strike an affidavit from Paul M. Rominski, a Lucent employee, submitted in support of Lucent's motion, which indicated that Lucent's work in connection with the allegedly infringing coupler was done for the government with its authorization. Crater moved to strike the affidavit, arguing that it was not based on Mr. Rominski's personal knowledge of the pertinent facts. Crater also requested an evidentiary hearing on the motion to dismiss, more time to respond to that motion, and leave to conduct disovery on both its motion to strike and the defendants' motion to dismiss. The Court allowed

discovery. Shortly after it began, however, the United States intervened to formally assert the state secrets privilege and to argue against any discovery by Crater. Shortly thereafter, the Court granted Lucent's motion to dismiss on August 25, 1999, concluding that all of the work the defendants performed on the device at issue was performed for the government with its consent.

On appeal, the United States Court of Appeals for the Federal Circuit concluded that dismissal of the federal patent claim was proper, and affirmed the Court's underlying determination that Crater failed to produce any evidence of work on the coupler outside of the defendants' capacity as a government contractor. The Federal Circuit held, however that this Court dismissed the patent claim for the wrong reason. According to the court, 28 U.S.C. § 1498(a) provides an affirmative defense for private parties accused of patent infringement, but it is not a jurisdictional provision. The court found that the defendants were entitled to summary judgment on that affirmative defense. This Court had concluded, however, that it could not exercise supplemental jurisdiction over Crater's state-law claims because it did not have original jurisdiction over the federal patent claim. Because the Federal Circuit concluded that the correct way to dismiss the federal patent claim was to grant summary judgment to the defendants based on the statutory affirmative defense, that Court concluded that this Court did indeed have original jurisdiction over the federal patent claim. Thus, the Federal Circuit ruled that this Court had discretion under 28 U.S.C. § 1367(c) to retain jurisdiction over Crater's pendent state law claims, even though the federal patent claim was dismissed. Accordingly, the Federal Circuit remanded the

state law claims to this Court to decide if it would exercise supplemental jurisdiction over them. This Court decided to hear the state-law claims because the case implicated national security concerns.

Roughly five months before dismissing the case, however, this Court entered a protective order sought by the United States, which stated that Crater could not "conduct any discovery or serve any subpoena for information relating to the manufacture or use of plaintiff's coupling device, or any coupling device, by or on behalf of the United States." Crater moved to dissolve this protective order in October 2002, arguing principally that the United States had consented to public disclosure of some of the information subject to the order. The Court held a hearing on the motion on November 22, 2002, and ordered Crater to submit a set of proposed discovery requests to both defendants and the United States, which the Court could rule on individually. Plaintiff then submitted 21 document requests and 15 interrogatories. Over the course of roughly four months, the United States reviewed approximately 26,000 pages of documents and concluded that it could not respond to any of Crater's requests, claiming that "responsive information [could not] be wholly or partially disclosed without jeopardizing the national security interests of the United States."

After hearing the parties' arguments at a hearing in May 2003, and weighing the alternatives, the Court agreed to defer ruling on the motion to dissolve the March 1999 protective order, until after it conducted an *in camera* inspection of the 26,000 documents to properly rule on the United States'

objections. The Court completed its inspection on September 9, 2003, and ordered the government to disclose a substantial portion of the disputed 26,000 documents to Crater. The government responded by claiming that national security concerns prevented it from disclosing any of the documents. According to the government, even a partial release of the materials in redacted form could gravely harm the national security interests of the United States. The Court then ordered the United States to appear at a hearing and show cause why the previously identified documents should not be disclosed to counsel for Crater.

At the hearing, it became clear that the amount of documents that would be required to be disclosed to Crater is not the real issue in this case. Although the Court feels that some of the documents should be disclosed, it is clear from the Court's *in camera* inspection that several documents are indeed protected by the state secrets privilege. Under the common law state secrets privilege, the government may prevent disclosure of information in a lawsuit if the court is satisfied "from all the circumstances of the case, that there is a reasonable danger that compulsion of the evidence will expose military matters, which in the interest of national security, should not be divulged." *United States v. Reynolds*, 345 U.S. 1, 10, 73 S.Ct. 528, 97 L.Ed. 727 (1953). The privilege is absolute, making the information unavailable to either party in this litigation, even if the court finds that a party makes a strong showing of necessity. *Id.* at 11. No competing interest can overcome the invocation of the privilege. After conducting a painstaking review of numerous documents over the course of four days, the Court has accorded, as the courts require, the utmost deference to the

Appendix B

Executive's determination of the impact of disclosure of the information on military security. *See Black v. United States*, 62 F.3d 1115, 1119 (8th Cir.1995); *Zuckerbraun v. General Dynamics Corp.*, 935 F.2d 544, 547 (2d Cir.1991).

This raises the issue, brought forward by the defendants in this motion, of whether a jury can decide the issues in this case fairly when a substantial part of the relevant evidence must remain secret. There is no Eighth Circuit precedent on the subject, but other courts have recognized that when the government invokes the state secrets privilege, there are three circumstances when the case may not continue: (1) if state secrets are critical to the resolution of core factual questions in the case; (2) if the plaintiff's ability to prove its case necessarily depends on or threatens the disclosure of privileged information; or (3) where the invocation of the privilege deprives the defendant of a valid defense. *See, e.g., D.T.M. Research, LLC v. AT & T Corp.*, 245 F.3d 327, 334 (4th Cir.2001); *Kasza v. Browner*, 33 F.3d 1159, 1166 (9th Cir.1998); *In re United States*, 872 F.2d 472, 476 (D.C.Cir.1989).

After reviewing the record, the Court finds that it must dismiss the case for any of these three independent grounds. Crater alleges that the defendants misappropriated Crater's trade secrets and breached contracts with Crater in five ways.[1]

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1. Crater claims in its First Amended Complaint that the defendants breached their contract with Crater by: (1) taking Crater's trade secrets and confidential information and disclosing this information to third parties without the permission of Crater; (Cont'd)

The defendants responded that their work, if any, related to Crater's coupler device, was performed at the request of the United States under a government contract. This Court agreed, and the Federal Circuit affirmed this Court's determination of that issue. Because of this, state secrets, namely the defendants' government contract, is the heart of the case. To recover from the defendants under the Missouri Uniform Trade Secrets Act, Crater must show that the defendants disclosed or used its trade secret without Crater's express or implied consent, and that at the time of the disclosure or use, knew or had reason to know that knowledge of the trade secret was acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use. Mo.Rev.Stat. § 417.453(2)(b) (defining misappropriation in relevant part). While Crater need not prove the government's intended use of the device, there is no way that Crater can prove misappropriation without showing that the defendants somehow incorporated Crater's design information into the classified government device. Because the protective order and the government's proper assertion of the state secrets privilege prevents Crater from discovering any evidence relating to this claim, Crater is unable to make out a prima facie case of misappropriation of trade secrets. Similarly, all

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(Cont'd)

(2) taking and using Crater's trade secrets and confidential information and using it to produce, sell, offer to sell devices using the trade secrets and confidential information provided by Crater; (3) taking and using information and drawings provided by Crater to produce, sell, and offer to sell devices; (4) disclosing the information and drawings provided by Crater to third parties; and (5) failing to provide Crater with copies of CAD drawings and solid models of Crater technology as promised.

of Crater's breach of contract claims except one require Crater to prove what the defendants did for the government.

The one contract claim that might not require Crater to prove the defendants' use is Crater's claim that the defendants breached their promise to provide Crater with copies of CAD drawings and solid models of Crater technology. Essentially, this claim accuses the defendants of failing to provide drawings and models of a device that the government has asserted is a state secret. In the Court's view, litigating this claim would unduly threaten the disclosure of privileged information.

Furthermore, there is no question that if the case proceeds, the defendants will not be able to adequately defend themselves. The defendants may not disprove Crater's allegations by stating what work they did for the government, nor could they show that they did not benefit from any alleged misappropriation. In short, the defendants may not be able to disclose what they did for the government, nor will they be able to deny what they did not do for the government, with respect to Crater's coupler. The Court agrees with the defendants that if the case were to proceed in this circumstance, the jury could not make a fair determination; thus dismissal is appropriate. *See Moliero v. FBI*, 749 F.2d 815, 825 (D.C.Cir.1982).

Finally, the Court rejects Crater's contention that the defendants do not have standing to assert the state secrets privilege in this case. In fact, the defendants have not asserted the privilege; the government has. In making this motion, the defendants argue that the consequences of the

government's proper assertion of the state secrets privilege require dismissal of this case, and the Court agrees. The clear case law indicates that protecting our nation's security takes precedence over Crater's claims against the defendants.

Therefore,

IT IS HEREBY ORDERED that Plaintiff's Motion to Dissolve the Second Protective Order [doc. # 176] is DENIED.

IT IS FURTHER ORDERED that Defendant's Motion to Dismiss [doc. # 235] is GRANTED. Plaintiff's claims are DISMISSED WITH PREJUDICE.

Dated this 19th day of February, 2004.

s/ E. Richard Webber
E. RICHARD WEBBER
UNITED STATES DISTRICT COURT

APPENDIX C — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DATED JUNE 6, 2001

UNITED STATES COURT OF APPEALS
FEDERAL CIRCUIT

No. 00-1125

CRATER CORPORATION,

Plaintiff-Appellant,

v.

LUCENT TECHNOLOGIES, INC.
and American Telephone and Telegraph Company,

Defendants-Appellees,

and

United States,

Defendant-Appellee.

June 6, 2001
Rehearing Denied Sept. 17, 2001

Before MAYER, Chief Judge, NEWMAN, and SCHALL, Circuit Judges.

Appendix C

SCHALL, Circuit Judge.

Crater Corporation ("Crater") sued Lucent Technologies, Inc. and American Telephone and Telegraph Company (collectively, "Lucent") in the United States District Court for the Eastern District of Missouri alleging that Lucent infringed Crater's U.S. Patent No. 5,286,129 (the " '129 patent"). The '129 patent is directed to an underwater coupling device (the "Crater coupler"). Crater also alleged state-law claims against Lucent for breach of contract and misappropriation of trade secrets. Lucent moved to dismiss Crater's complaint for lack of subject matter jurisdiction under Fed.R.Civ.P. 12(b)(1) and, in the alternative, for failure to state a claim upon which relief could be granted under Fed.R.Civ.P. 12(b)(6). Citing 28 U.S.C. § 1498(a),[1] Lucent argued that it was not liable for patent infringement because any work it performed with respect to the Crater coupler was done under a government project and was authorized by the United States. Pursuant to § 1498(a), a private party cannot be held liable for infringement for any goods "used or manufactured by or for the United States." *See Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869, 45 USPQ2d 1225, 1232 (Fed.Cir.1997). Lucent argued that the state law claims should be dismissed because there was no diversity of citizenship between Crater and Lucent, and since the district court lacked jurisdiction over the patent claims, due

1. All statutory references are to the 1994 version of the United States Code, as modified by Supplement IV of 1998.

to § 1498(a), it could not exercise supplemental jurisdiction over the state law claims. In due course, the district court concluded that Lucent's allegedly infringing activities were for the government and dismissed Crater's complaint for lack of jurisdiction. *Crater Corp. v. Lucent Techs.*, No. 4: 98CV00913 ERW (E.D.Mo. Aug. 25, 1999) (memorandum and order) ("*Crater II*"). Crater appeals the district court's ruling.

Although we conclude that the district court erred in dismissing Crater's patent infringement claims for lack of jurisdiction, the dismissal of those claims nevertheless was proper. The reason is that Lucent established that it was entitled to summary judgment on its 28 U.S.C. § 1498(a) affirmative defense against the patent infringement charge. However, since the district court did have jurisdiction over Crater's patent claims, we vacate the court's dismissal of Crater's state claims for lack of supplemental jurisdiction and remand for further proceedings on those claims.

BACKGROUND

I.

Section 1498(a) provides, in relevant part:

> Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall

> be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture. . . .
>
> For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States. . . .

28 U.S.C. § 1498(a). In addition to giving the United States Court of Federal Claims exclusive jurisdiction over patent infringement suits against the government, § 1498(a) also provides "an affirmative defense for applicable government contractors." *Va. Panel Corp.*, 133 F.3d at 869, 45 USPQ2d at 1232. If a patented invention is used or manufactured for the government by a private party, that private party cannot be held liable for patent infringement. *Trojan, Inc. v. Shat-R-Shield, Inc.*, 885 F.2d 854, 856, 12 USPQ2d 1132, 1134-35 (Fed.Cir.1989); *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1282-83, 6 USPQ2d 1277, 1283-84 (Fed.Cir.1988). In *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 16 USPQ2d 1587 (Fed.Cir.1990), we noted that pursuant to the United States Supreme Court's decision in *Sperry Gyroscope Co. v. Arma Engineering Co.*, 271 U.S. 232, 235-36, 46 S.Ct. 505, 70 L.Ed. 922 (1926), § 1498(a)"is to be applied, at least with respect to suits to which the United States is not a party, as a codification of a

defense and not as a jurisdictional statute." *Manville*, 917 F.2d at 554, 16 USPQ2d at 1595. Therefore, dismissal of a lawsuit against a private party pursuant to § 1498(a) is a dismissal because of the successful assertion of an affirmative defense rather than a dismissal because of the district court's lack of subject matter jurisdiction over the patent infringement claim. *Id.* at 554-55, 16 USPQ2d at 1595-96.

II.

As noted above, after Crater filed suit, Lucent moved for dismissal pursuant to Fed.R.Civ.P. 12(b)(1) and (6). Lucent claimed that, under 28 U.S.C. § 1498(a), Crater could not properly assert its claims for patent infringement against Lucent because the accused devices were manufactured by or for the government with its authorization and consent. Lucent asserted that Crater's only remedy was against the United States in the Court of Federal Claims. Lucent also claimed that the district court did not have original jurisdiction over Crater's state claims because there was no diversity of citizenship between Crater and Lucent, both corporations residing in Delaware. It further claimed that, since the district court lacked jurisdiction over the infringement claims, the court could not exercise supplemental jurisdiction over the state law claims. Accompanying Lucent's motion was an affidavit from Paul M. Rominski, a Lucent employee, indicating that Lucent's work in connection with the allegedly infringing coupler was done for the government with its authorization.

Appendix C

On August 27, 1998, shortly after Lucent's motion was filed, Crater moved to strike Mr. Rominski's affidavit. In support of the motion to strike, Crater asserted that the affidavit was defective because it was not based upon Mr. Rominski's personal knowledge of the pertinent facts. Crater also requested an evidentiary hearing on Lucent's motion to dismiss, additional time to respond to Lucent's motion, and leave to conduct discovery in support of its motion to strike and in opposition to the motion to dismiss. In its papers, Crater alleged that Lucent had engaged in commercial use of the allegedly infringing coupler. It also alleged that Lucent had provided the couplers to private parties and that not all of Lucent's work on the coupler was done for the government. In response to Crater's request, the district court allowed discovery.

After discovery began, the United States intervened on March 12, 1999, to formally assert the state secrets privilege and to argue against any discovery by Crater regarding the manufacture or use of the allegedly infringing coupler by or on behalf of the United States. The state secrets privilege and the circumstances surrounding its assertion in this case are discussed *infra* in Part III of the DISCUSSION section of this opinion.

After over a year of discovery, Crater filed its opposition to Lucent's motion to dismiss on August 9, 1999. Crater supported its opposition with the deposition of Mr. Rominski. Lucent replied and supplemented its motion with the affidavit and deposition of Mr. Rominski, the deposition of Barry Lack, a former Lucent employee, and the deposition of Kenneth M. Nagengast, a current Lucent employee. Lucent

also referenced, in its reply, its responses and the government's responses to Crater's interrogatories and the documents the government produced during discovery. Thereafter, on August 25, 1999, the district court granted Lucent's motion. *Crater II*, slip op. at 6. The court noted that Crater had failed to produce any evidence, over several months of discovery, indicating that Lucent performed any "work in regards to [Crater's] patent for any entity or individual other than the [g]overnment." *Id.* at 4. The court also noted that no evidence had been produced to indicate that Lucent performed any work on the coupler without the government's authorization or consent. *Id.* The court determined, based upon this lack of evidence, that "all the work performed by [Lucent] in this matter with regard to the [a]ccused [d]evice was performed for the United States Government with the authorization or consent of the United States Government. As a result, the Court of Federal Claims, not this district court, has the exclusive jurisdiction over this cause of action." *Id.* at 6. Therefore, the court granted Lucent's motion to dismiss and entered judgment against Crater. *Id.* at 6-7. The court also concluded that Crater's motion to strike Mr. Rominski's affidavit was irrelevant in light of the several months of discovery that had occurred after the affidavit was filed. *Id.* at 4-5. Consequently, the court did not rule on the motion. *Id.* at 4 n. 2. The court noted, however, that granting the motion to strike would not lead to a different result as far as Lucent's motion to dismiss was concerned. *Id.* at 4-5.

Crater appealed the dismissal of its complaint to the United States Court of Appeals for the Eighth Circuit. The Eighth Circuit transferred the appeal to this court pursuant

to 28 U.S.C. § 1631.[2] The Eighth Circuit ruled that Crater's claims against Lucent arose, in whole or in part, under the federal patent laws, thereby vesting this court with exclusive appellate jurisdiction under 28 U.S.C. § 1295(a)(1).

DISCUSSION

I.

Federal Rule of Civil Procedure 12(b) provides that if, as in this case, on a 12(b)(6) motion "to dismiss for failure of the pleading to state a claim upon which relief can be granted, matters outside the pleading are presented to and not excluded by the court, the motion shall be treated as one for summary judgment and disposed of as provided in Rule 56." *See Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1250, 55 USPQ2d 1001, 1003 (Fed.Cir.2000). Summary judgment "shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed.R.Civ.P. 56(c); *Celotex Corp. v. Catrett*, 477 U.S. 317, 322, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986); *Dammen v. UniMed Med. Ctr.*, 236 F.3d 978, 980 (8th Cir.2001). The burden is initially upon the movant to establish the absence of any genuine issue of material fact and entitlement to judgment as a matter of law. *Celotex*, 477 U.S. at 323-24, 106 S.Ct. 2548. Once a properly supported motion for

2. Section 1631 provides for transfers of cases that have been filed in the wrong court in order to cure the resulting lack of jurisdiction.

summary judgment is made, the adverse party 'must set forth specific facts showing that there is a genuine issue for trial.' *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 250, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986) (citing Fed.R.Civ.P. 56(e)) (footnotes omitted). We review a grant of summary judgment without deference. *Conroy v. Reebok, Int'l, Ltd.*, 14 F.3d 1570, 1575, 29 USPQ2d 1373, 1377 (Fed.Cir.1994). In addition, we must, as the district court was required to do, draw all reasonable factual inferences in favor of the nonmovant. *Anderson*, 477 U.S. at 255, 106 S.Ct. 2505.

II.

Crater argues that Lucent failed to submit any competent evidence to meet the standard for summary judgment. Crater asserts that Mr. Rominski's affidavit, that was submitted with Lucent's motion to dismiss, was not based on Mr. Rominski's personal knowledge, and thus could not be relied on by the district court. Crater also argues that the district court improperly considered evidence that was not submitted by Lucent until it replied to Crater's opposition to the motion to dismiss. Crater further argues that the district court then failed to give Crater a chance to respond to the evidence. Finally, Crater argues that it submitted evidence that creates a genuine issue of material fact as to whether all of Lucent's couplers were made for the government.

Lucent responds that the Rominski affidavit was based on personal knowledge. In any event, it urges, apart from the Rominski affidavit, it brought forward enough evidence to make it clear that Lucent did not use or make the allegedly

infringing coupler for any commercial, non-government purpose. Lucent also asserts that the evidence it submitted with its reply brief did not prejudice Crater because Crater already was aware of similar evidence that established that Lucent's only work on the coupler was for the government and under the government's authorization. Lucent argues that the unique circumstances of the case, in which discovery was taken after Lucent's initial brief in support of its motion to dismiss, forced Lucent to submit the challenged evidence with its reply brief.

A. *The issue of the Rominski affidavit*

Lucent moved for dismissal on August 17, 1998. As indicated above, it did so based in large part on 28 U.S.C. § 1498(a). Lucent argued that any work it had done involving the '129 patent was performed for the government and with the government's authorization and consent. *Crater II*, slip op. at 1-2. To support its claim, Lucent submitted the Rominski affidavit. After identifying himself as a Lucent employee, Mr. Rominski asserted that Lucent had performed work as a subcontractor on a government project involving "the development of certain prototype equipment, one element of which was a coupler device of a kind known as a quick disconnect coupler." Mr. Rominski further asserted that, based upon his personal knowledge, he could state that all of Lucent's activities involving the coupler "were solely for the Government in connection with the development project [he] was working on under the classified development contract."

Appendix C

As indicated above, Crater requested, and was granted, additional time to conduct discovery. The court allowed Crater to seek discovery on "(1) whether defendants made, used, or sold the Accused Device ('Accused Device' meaning split valve coupling device), to or for anyone other than the United States of America, and (2) whether the United States Government gave its authorization or consent to defendants for their manufacture of the Accused Device." *Crater Corp. v. Lucent Techs.*, No. 4: 98CV00913 ERW, slip op. at 2 (E.D.Mo. Sept. 17, 1998) (order) ("*Crater I*"). The discovery that was conducted included about twenty-five requests for production and interrogatories, to which Lucent responded. In addition, Lucent provided supplemental responses for at least seven of Crater's interrogatories and provided answers to Crater's proposed additional discovery requests. Crater deposed Mr. Rominski, Mr. Lack, and Mr. Nagengast. Crater also received documents and interrogatory responses from the United States. When Crater responded to Lucent's motion to dismiss on August 9, 1999, it also moved to strike the Rominski affidavit. Crater argued that the affidavit was defective because, notwithstanding its language, it was not based upon Mr. Rominski's personal knowledge. *See* Fed.R.Civ.P. 56(e); *McSpadden v. Mullins*, 456 F.2d 428, 430 (8th Cir.1972). Crater contended that certain statements made by Mr. Rominski when he was deposed undermined the assertion in his affidavit that he had personal knowledge with respect to the Lucent coupler project. Appellant Br. at 49-53. Specifically, Crater points to testimony by Mr. Rominski in his deposition that, although he was an engineer involved in Lucent's underwater fiber optic connector project, he had no responsibilities with respect to the negotiating or signing of contracts in connection with the "government

program." As noted above, in ruling in favor of Lucent, the district court did not rule on the motion to strike the Rominski affidavit, stating that, in view of the discovery that had taken place, the issue was moot. The court further stated that granting the motion to strike would not have changed the result in the case. Under these circumstances, we have not considered the Rominski affidavit.

B. *Evidence relevant to the § 1498(a) affirmative defense*

Disregarding Mr. Rominski's affidavit, we hold that Lucent still provided sufficient evidence of record to meet its burden under the summary judgment standard. All of the evidence that was produced during discovery indicated that Lucent's work on the allegedly infringing coupler was done for the government. Lucent, in its supplemental answers to Crater's interrogatories on March 31, 1999, stated that it had "not designed, developed, manufactured, sold, or offered for sale, directly or through another, any [allegedly infringing coupler] to or for anyone other than the United States of America." The response continued, noting that Lucent's work on the coupler was part of a classified development project for the government. Lucent further indicated, on July 16, 1999, in its response to Crater's proposed additional discovery, that the chain of custody of all of the couplers it made was from Lucent to the government, and the government now owned all of the couplers. The government also provided evidence to support Lucent's defense. On July 15, 1999, in response to Crater's supplemental interrogatories and requests for production, the government affirmed the existence of a classified development contract covering work on the coupler for the government, under which Lucent was

a subcontractor, providing the specific dates the contract covered. The government also produced redacted copies of the classified contract between the government and the primary contractor and the subcontract between the primary contractor and Lucent. The contract between the government and the primary contractor indicated that work under the contract was authorized by the government. This evidence alone substantiates Lucent's claim that it was a subcontractor working on the coupler project for the government, thereby establishing Lucent's defense under § 1498(a).

The evidence Lucent submitted with its reply brief further buttressed Lucent's defense under § 1498(a). The deposition testimony of Mr. Nagengast, who was an engineer at Lucent who worked with the coupler, indicated that all of the work done on the coupler was for the government. Mr. Nagengast testified that all of the couplers made were sold to the government and all work on the coupler project was billed to a government program account. Mr. Nagengast also stated that he was never involved in discussions suggesting that Lucent was engaging in commercial use of the coupler. Mr. Lack, who worked on the coupler at Lucent, testified in his deposition that all of the work on the coupler at Lucent was associated with a classified program for the government. Finally, in a declaration, Martin I. Finston, in-house counsel at Lucent, stated that Lucent's work on the coupler was part of a classified government project under which Lucent was a subcontractor. Mr. Finston indicated that the contract under which Lucent performed its work on the coupler contained a provision stating that "the government authorizes and consents to all use and manufacture of any invention described in and covered by a United States patent in the performance of the contract."

Appendix C

Crater is correct that Lucent first presented the Finston declaration and the Nagengast and Lack deposition testimony with the reply brief that it filed on August 17, 1999, in support of its motion to dismiss. However, since discovery was not granted until *after* Lucent's initial motion to dismiss, filed on August 17, 1998, the only chance Lucent had to submit evidence produced during discovery was with its reply brief. *See* E.D. Mo. L.R. 3.02(a) (July 1, 1998) (prohibiting the filing of discovery and disclosure material except as exhibits to a motion or memorandum). In addition, the depositions of Mr. Nagengast and Mr. Lack were taken at the request of Crater, whose counsel examined the two witnesses. Not only did Crater have notice of the depositions and their contents, but Crater filed its opposition to Lucent's motion to dismiss on August 9, 1999, *after* the depositions were taken on July 30, 1999. In the cases Crater cites to support its argument that the evidence offered by Lucent should be ignored, *Black v. TIC Investment Corp.*, 900 F.2d 112, 116 (7th Cir.1990), and *Cia. Petrolera Caribe, Inc. v. Arco Caribbean, Inc.*, 754 F.2d 404, 409-10 (1st Cir.1985), evidence submitted with a reply brief was rejected because it was new and the opposer was never given an opportunity to respond to it. Crater had ample opportunity and notice of the substance of the declaration and deposition evidence Lucent submitted with its reply brief, and it was able to adequately address the evidence in its opposition brief.

Contrary to its argument on appeal, Crater failed to come forward with any evidence that raised a genuine issue of material fact so as to defeat summary judgment, even though it had the opportunity to develop relevant evidence in discovery. The district court provided Crater with almost a

year to perform discovery as to whether Lucent engaged in any commercial activity with regard to the allegedly infringing coupler device. Crater points to Mr. Rominski's deposition to prove that Mr. Rominski did not have personal knowledge of the facts contained in his affidavit. However, even if Mr. Rominski's affidavit is insufficient, all of the other evidence produced during discovery supports Lucent's claim that its activities involving the coupler were authorized by the government. Crater also asserts, based upon the affidavits of Steven P. Van Keuren, the president of Crater, that there was a discrepancy between the number of couplers the government indicates Lucent made for it and the number of couplers Lucent admits to making. However, there is no such discrepancy in Lucent's and the government's responses, both of which indicate that all of the couplers made by Lucent were for the government. We conclude that there is no genuine issue of material fact that Lucent's work on the coupler project was for the government.

For the foregoing reasons, we hold that summary judgment was properly granted in favor of Lucent on its affirmative defense under 28 U.S.C. § 1498(a). The district court did err in dismissing Crater's complaint for lack of jurisdiction, however. *See Manville*, 917 F.2d at 554-55, 16 USPQ2d at 1595-96 (noting that § 1498(a) is not jurisdictional, but provides an affirmative defense for private parties charged with patent infringement). Since the district court's dismissal of Crater's patent infringement claim based upon § 1498(a) could not be a dismissal for lack of jurisdiction, the district court had original jurisdiction over the case by reason of Crater's patent claims. *See* 28 U.S.C. § 1338(a); *Leatherman Tool Group Inc. v. Cooper Indus.*,

Inc., 131 F.3d 1011, 1013, 44 USPQ2d 1837, 1839-40 (Fed.Cir.1997). Having original jurisdiction based on Crater's patent law claims,[3] the district court has supplemental jurisdiction over Crater's state law claims for breach of contract and misappropriation of trade secrets because those claims "form part of the same case or controversy," 28 U.S.C. § 1367(a). *Textile Prods., Inc. v. Mead Corp.*, 134 F.3d 1481, 1486, 45 USPQ2d 1633, 1637 (Fed.Cir.1998). Even though Crater's patent infringement claims were properly dismissed, the district court still has the discretion to exercise supplemental jurisdiction over the state law claims. 28 U.S.C. § 1367(c); *Gaia Techs., Inc. v. Reconversion Techs., Inc.*, 93 F.3d 774, 781, 39 USPQ2d 1826, 1832, *amended in part by* 104 F.3d 1296, 1297, 41 USPQ2d 1134, 1140 (Fed.Cir.1996). We must therefore remand the state law claims for the district court to determine, in its discretion, whether it will retain jurisdiction over them.

III.

As noted above, on March 12, 1999, the United States officially intervened and moved to bar any discovery regarding the manufacture or use of the coupler by or on behalf of the United States. The government asserted that any information to be obtained in such discovery was protected by the state secrets privilege. The state secrets privilege allows the United States to "block discovery in a lawsuit to any information that, if disclosed, would adversely

3. Crater does not dispute that both parties are citizens of Delaware. Therefore, the district court cannot exercise original jurisdiction over Crater's state law claims under 28 U.S.C. § 1332(a) based on diversity of citizenship.

affect national security." *Ellsberg v. Mitchell*, 709 F.2d 51, 56 (D.C.Cir.1983). The privilege is invoked to prevent "impairment of the nation's defense capabilities, disclosure of intelligence-gathering methods or capabilities, and disruption of diplomatic relations with foreign governments." *Id.* at 57 (footnotes omitted). *See also United States v. Reynolds*, 345 U.S. 1, 73 S.Ct. 528, 97 L.Ed. 727 (1953).

The government supported its motion with both an unclassified and a classified declaration of Richard J. Danzig, Secretary of the Navy. At the court's request, on March 23, 1999, the government presented the classified declaration to the court for *in camera* inspection outside the presence of Crater and Lucent. The court granted the government's motion, barring any discovery or the service of any subpoena for information relating to the manufacture or use of Crater's patented coupling device, or any coupling device, by or on behalf of the United States.

On appeal, Crater argues vigorously that the government failed to meet the threshold requirements for proper assertion of the state secrets privilege. Crater contends that Secretary Danzig failed to review the documents Crater was seeking in order to determine whether assertion of the privilege truly was necessary. Crater also contends that the material it sought in discovery could not be protected under the state secrets privilege because the government and its agents had voluntarily revealed the material, thereby vitiating the privilege. Finally, Crater contends that the district court erred in not reviewing each document with respect to which the privilege was being asserted.

We conclude, however, that it is not necessary for us to address Crater's arguments concerning the state secrets privilege. The reason is that we believe that the issue of the privilege is irrelevant to the question that is before us on appeal-whether the district court erred in dismissing Crater's patent infringement claims against Lucent based upon the affirmative defense of 28 U.S.C. § 1498(a).

Even before the government intervened in the case and invoked the privilege, the district court had limited discovery on Lucent's motion to dismiss to evidence relevant to the § 1498(a) issue-evidence relating to the question of whether Lucent made, used, or sold the coupler device to or for anyone other than the government. *Crater I*, slip op. at 2. The only information relevant to Crater's opposition to Lucent's motion was information of commercial use of the coupler by Lucent. The privilege, by definition, only barred discovery of evidence of *non-commercial* use of the coupler by Lucent. The fact the district court allowed the government to assert the privilege had no bearing on Crater's ability to discover evidence that would have created a genuine issue of material fact as to whether Lucent engaged in commercial activity regarding the coupler. Therefore, we do not decide whether the privilege was erroneously invoked because any evidence that was protected by the privilege was not relevant to Crater's opposition to Lucent's motion.[4]

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4. In a related matter, Crater claims that the district court took part in what Crater characterizes as three improper *ex parte* communications with the government. We have carefully considered Crater's claim and see no impropriety in the court's communications with government counsel.

Appendix C

CONCLUSION

We affirm the district court's dismissal of Crater's patent infringement claims because there is no genuine issue of material fact that Lucent's use and manufacture of the allegedly infringing coupler was for the government. Because Lucent established its affirmative defense under 28 U.S.C. § 1498(a), Lucent's activities cannot be held to be infringing. However, as explained above, the district court did have jurisdiction over Crater's patent claims. Therefore, the district court erred in dismissing Crater's complaint for lack of jurisdiction. We therefore vacate the district court's dismissal of Crater's complaint and remand the case to the district court so that the court may decide whether, in its discretion, to exercise jurisdiction over Crater's state law claims.

AFFIRMED IN PART, VACATED IN PART, and REMANDED.

APPENDIX D — MEMORANDUM AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MISSOURI, EASTERN DIVISION DATED AND FILED AUGUST 25, 1999

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

Case No. 4:98CV00913 ERW

CRATER CORPORATION,

Plaintiff,

vs.

LUCENT TECHNOLOGIES, INC. and
AMERICAN TELEPHONE AND
TELEGRAPH COMPANY,

Defendant(s).

MEMORANDUM AND ORDER

This matter is before the Court upon defendants' Motion to Dismiss [Document #8].

I. SUMMARY OF THE PROCEEDINGS IN THIS MATTER.

Plaintiff Crater Corporation filed this suit against the defendants on May 22, 1998. In its complaint, plaintiff alleges that the defendants infringed on plaintiff's patent and caused

others to infringe on plaintiff's patent and that defendants took and misappropriated confidential information of plaintiff concerning plaintiff's patented device without plaintiff's permission. Plaintiff's claims against defendants consisted of both state law claims as well as federal claims under the patent laws of the United States. Plaintiff alleged, at least at the outset of this case, that this Court had diversity jurisdiction over plaintiff's state law claims and federal jurisdiction over plaintiff's patent law claims. However, because it appears from plaintiff's complaint that plaintiff and defendant Lucent are both incorporated under the laws of Delaware, making them citizens of the same state, plaintiff is unable to establish that complete diversity exists in this matter.

As a result of the lack of diversity jurisdiction in this matter, this Court would not have jurisdiction over this matter if the Court does not have jurisdiction over plaintiff's federal patent infringement claims. On August 17, 1998, the defendants moved to dismiss this action on the ground that this Court does not have jurisdiction over plaintiff's patent infringement claims. In support of their Motion, defendants contended, with documentary support from the affidavit of Paul Rominski, that any of their work involving the patent at issue was performed for the United States Government and with its authorization and consent. As a result, defendants argued that the Court of Federal Claims had exclusive jurisdiction over plaintiff's patent infringement claims pursuant to 28 U.S.C. 1498(a). Therefore, defendants argued, this Court lacked any jurisdictional basis to hear plaintiff's claims.

In response, plaintiff requested, among other things, a ninety day extension in which to perform discovery on the facts supporting defendants' claim that the alleged patent infringement claims at issue should have been filed in the Court of Federal claims pursuant to 28 U.S.C. § 1498(a). Document #12. While plaintiff's attempts at discovery did not proceed expediently at the outset, in part because the defendants represented to the Court that they could not disclose certain information due to their obligation to keep certain information confidential under their contract with the United States Government, plaintiff was granted several extensions of time in which to conduct discovery and was allowed to conduct discovery on the issue of defendants' use of plaintiff's patent for any entity other than the United States Government. However, plaintiff's attempt to conduct discovery was limited following the Court's finding that the Government was entitled to assert the state secrets privilege in this matter. Notwithstanding the Government's presence in this action to protect the state secrets threatened by plaintiff's discovery, plaintiff was allowed to conduct discovery related to defendants' use of plaintiff's patent for purposes other than on behalf of the United States Government.

Plaintiff filed its response to defendants' Motion to Dismiss on August 9, 1999. In its response, plaintiff asserts that defendants' Motion to Dismiss should be denied, because the affidavit of Mr. Rominski, which was attached to defendants' Motion to Dismiss, was not based on his personal knowledge. Defendants filed their reply to plaintiff's Motion to Dismiss on August 17, 1999, exactly one year after defendants' originally filed their Motion to Dismiss. Having

reviewed the briefs filed by the parties in relation to this issue, having participated in multiple hearings regarding plaintiff's discovery efforts, and having considered the Government's claim of entitlement to the state secrets privilege, the Court concludes that plaintiff's claims should be dismissed, because this Court lacks jurisdiction over plaintiff's claims against defendants.

II ANALYSIS.

Pursuant to 28 U.S.C. § 1498(a),[1] Congress has vested exclusive jurisdiction in the Court of Federal Claims over actions for patent infringement against the United States Government. *See generally Croydon Co., Inc. v. Unique Furnishings, LTD.*, 831 F. Supp. 480, 482-83 (E.D. N.C. 1993). While the plaintiff in this matter has not directly sued the United States Government, section 1498 still vests exclusive jurisdiction in the Court of Federal Claims if the

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1. Section 1498(a) provides as follows in relevant part: "Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture. . . .

For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States."

defendants' use or manufacture of a device covered by plaintiff's patent was for the Government and "with the authorization or consent of the Government," because under section 1498, such use "shall be construed as use or manufacture for the United States." 28 U.S.C. § 1498(a). *See also Croydon Co.*, 831 F. Supp. at 482-83.

Notwithstanding plaintiff's repeated attempts over several months to discover evidence indicating that defendants' use of plaintiff's patent was for an individual or entity other than the Government or was not performed with the authorization or consent of the Government, no evidence presented to the Court indicates that defendants performed work in regards to plaintiff's patent for any entity or individual other than the Government. Similarly, no evidence indicates that defendants performed such work without the authorization or consent of the Government. For this reason, the Court finds that defendants' Motion to Dismiss should be granted.

In addition, the Court does not believe that plaintiff's attempt to strike the affidavit of Mr. Rominski should lead to a contrary result.[2] Denying the Motion to Dismiss on such a technicality would require the Court to turn its back on the several months of discovery undertaken by the plaintiff in this case. While the original Motion to Dismiss may have been based in large part, if not entirely, on the Rominski affidavit, plaintiff requested additional time to conduct discovery on the jurisdictional issue, because "the disputed facts in this case require discovery to determine the truth."

2. This statement by the Court should not be construed as a finding that the Court would strike Rominski's affidavit.

Appendix D

Plaintiff's Brief in Support of Motion for 90 Day Extension [Document #12] at pg. 8. Plaintiff stated that discovery to uncover the truth was necessary, because "Defendants' affidavit is conclusory and not based upon personal knowledge, and because [plaintiff] has not had any reasonable opportunity to conduct discovery on the disputed issues . . ." *Id.* Now, after conducting discovery in the search for the truth over a period of several months without uncovering any evidence supporting its position, plaintiff opposes the Motion to Dismiss solely on the ground that the Rominski affidavit was not based on his personal knowledge. However, plaintiff's argument ignores the fact that its original attack on the Rominski affidavit was one of the factors leading to the discovery undertaken in this matter. At least one of the purposes of such discovery was to ascertain if any real facts supported the defendants' Motion as corroborated by the Rominski affidavit. As a result, plaintiff needed to come forward with specific facts demonstrating the falsity of the defendants' assertions, as corroborated by the Rominski affidavit. Instead, plaintiff only attacks the Rominski affidavit. The Court will not deny the Motion to Dismiss on that ground alone, especially when all the events and discovery in this action since August of 1998 indicates that defendants' Motion should be granted.[3]

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3. While defendants note that recent deposition testimony and an affidavit provided by former and present Lucent employees corroborate the Rominski affidavit, *see* Nagengast Deposition at 58-59; Lack Deposition at 10-11; Declaration of Martin I. Finston, the Court also notes that the Government's presence in this case in asserting the state secrets privilege established that at least some of the work performed by defendants in regards to the Accused Device

(Cont'd)

Appendix D

III. CONCLUSION.

For the reasons set forth in this Memorandum and Order, the Court finds that all the work performed by the defendants in this matter with regard to the Accused Device was performed for the United States Government with the authorization or consent of the United States Government. As a result, the Court of Federal Claims, not this district court, has the exclusive jurisdiction over this cause of action. Therefore, defendants' Motion to Dismiss shall be granted.

Accordingly,

IT IS HEREBY ORDERED that defendants' Motion to Dismiss [Document #8] is **GRANTED.** Plaintiff's claims shall be dismissed without prejudice so that plaintiff can refile its patent infringement claims in the Court of Federal Claims against the United States Government if necessary and its state law claims against defendants in a proper state court if necessary;

IT IS FURTHER ORDERED that to the extent the Government has requested, orally or otherwise, that the Court unseal its Memorandum and Order of March 24, 1999 [Document #70], such request is **DENIED;** and

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(Cont'd)
was performed with the authorization or consent of the Government. *See Croydon Co., Inc.*, 831 F. Supp. at 484 (noting that Government need not "expressly" provide authorization and consent to patent infringement if it "effectively" gave such authorization "by contracting for and accepting delivery of the alleged infringing manufacture").

Appendix D

IT IS FURTHER ORDERED that all other pending motions in this matter are **DENIED** as moot.

An appropriate judgment shall accompany this memorandum and order.

Dated this 25th day of August, 1999.

s/ E. Richard Webber
E. Richard Webber
UNITED STATES DISTRICT JUDGE

APPENDIX E — ORDER OF THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MISSOURI, EASTERN DIVISION DATED AND FILED MARCH 24, 1999

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

Case No. 4:98CV00913 ERW

FILED UNDER SEAL

CRATER CORPORATION,

Plaintiff,

vs.

LUCENT TECHNOLOGIES, INC. and AMERICAN TELEPHONE AND TELEGRAPH COMPANY,

Defendant(s).

ORDER

This matter is before the Court upon the United States' Motion to Quash and for a Protective Order [Document #61], plaintiff's Motion for this District Court to Dissolve its Stay and Reset the Document Productions Previously Set by Subpoena Duces Tecum [Document #66], and following this Court's in camera review of documents possessed by the United States. Having reviewed the documents possessed by the Government,

Appendix E

IT IS HEREBY ORDERED that the United States' Motion to Quash and for a Protective Order [Document #61] is **GRANTED.** Having reviewed the documents in the possession of the Government in camera, the Court concludes that the United States is entitled to assert the state secrets privilege in this case. The Court finds that exposure of the information sought by plaintiff's discovery requests would cause extremely grave damage to national security.

IT IS FURTHER ORDERED that plaintiff is prohibited from conducting any discovery or serving any subpoena for information relating to the manufacture or use of plaintiff's coupling device, or any coupling device, by or on behalf of the United States.

IT IS FURTHER ORDERED that the plaintiff's Motion for This District Court to Dissolve its Stay and Reset the Document Productions Previously Set by Subpoena Duces Tecum [Document ##66] is DENIED in light of the Court's granting of the Government's Motion to Quash and for a protective order.

Dated this 24th day of March, 1999.

s/ E. Richard Webber
E. Richard Webber
UNITED STATES DISTRICT JUDGE

APPENDIX F — ORDER OF THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MISSOURI, EASTERN DIVISION DATED AND FILED SEPTEMBER 17, 1998

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

Case No. 4:98CV00913 ERW

CRATER CORPORATION,

Plaintiff,

vs.

LUCENT TECHNOLOGIES, INC. and AMERICAN TELEPHONE AND TELEGRAPH COMPANY,

Defendant(s).

ORDER

This matter is before this Court upon Defendants' Motion to Dismiss [Document #8], Plaintiff's Motion for Leave to File First Amended Complaint [Document #9], Plaintiff's Motion to Strike Affidavit and Exhibits [Document #10], Plaintiff's Motion for an Evidentiary Hearing [Document #11], and Plaintiff's Motion for a 90 Day Extension of Time [Document #12]. In response to these motions and the arguments made by both parties, the Court enters the following order:

Appendix F

1. The Court will defer ruling on defendants' Motion to Dismiss [Document #8] until after December 31, 1998.

2. The Court will defer ruling on plaintiff's Motion to Strike [Document #10] until after December 31, 1998.

3. The Court will defer ruling on plaintiff's Motion for Hearing [Document #11] until after December 31, 1998.

4. The Court will grant Plaintiff's Motion for Extension of Time To Do Discovery Before Ruling on Defendants' Motion to Dismiss [Document #12]. Plaintiff has until December 31, 1998 to respond to defendant's Motion to Dismiss. Defendants shall have ten days following plaintiff's service of its response to defendants' motion to reply thereto.

5. The Court will grant Plaintiff's Motion to File First Amended Complaint [Document #91. The First Amended Complaint is deemed filed as of September 17, 1998.

6. Defendants may answer the First Amended Complaint after the Court's ruling on pending motions.

7. Parties are granted until December 31, 1998 to conduct discovery, beginning immediately, limited to the subject matter jurisdictional issue under 28 U.S.C. §1498(a) raised by defendants' Motion to Dismiss and plaintiff's opposition thereto. The parties are permitted to proceed with discovery on the issues of (1) whether defendants made, used, or sold the Accused Device ("Accused Device" meaning split ball valve coupling device), to or for anyone other than the United States of America, and (2) whether the United States

Appendix F

Government gave its authorization or consent to defendants for their manufacture or use of the Accused Device.

8. Discovery related to classified information or materials that are not related to the two issues listed above is strictly prohibited. Any discovery related to classified information or materials that are related to the two issues listed above may proceed only after the Court makes further orders in response to the parties' motions or requests.

9. All other discovery, including but not limited to discovery relating to claims of infringement, breach of contract, or trade secrets, is stayed pending decision on defendants' motion to dismiss.

SO ORDERED

s/ E. Richard Webber
E. RICHARD WEBBER
UNITED STATES DISTRICT JUDGE

September 17, 1998

APPENDIX G — ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DENYING PETITION FOR REHEARING DATED AND FILED DECEMBER 6, 2005

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

04-1349

CRATER CORPORATION,

Plaintiff-Appellant,

v.

LUCENT TECHNOLOGIES, INC. and AT&T COMPANY,

Defendants-Appellees,

and

UNITED STATES,

Defendant-Appellee.

ORDER

A petition for rehearing en banc having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the APPELLEES,* and the matter having first been referred as a petition for rehearing to the panel that heard the appeal, and thereafter the petition for rehearing en banc and response having been referred to the circuit judges who are in regular active service,

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* The United States and Lucent Technologies Inc., et al. each filed a response.

Appendix G

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en bane be, and the same hereby is, DENIED.

The mandate of the court will issue on December 13, 2005.

FOR THE COURT

s/ Jan Horbaly
Jan Horbaly
Clerk

Dated: December 6, 2005

APPENDIX H — DECLARATION AND ASSERTION OF MILITARY AND STATE SECRETS PRIVILEGE OF RICHARD J. DANZIG, SECRETARY OF THE NAVY, UNDATED

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MISSOURI EASTERN DIVISION

Case No. 4:98CV00913ERW

CRATER CORPORATION,

Plaintiff

v.

LUCENT TECHNOLOGIES, INC., and AMERICAN TELEPHONE AND TELEGRAPH COMPANY,

Defendants

DECLARATION AND ASSERTION OF MILITARY AND STATE SECRETS PRIVILEGE OF RICHARD J. DANZIG, SECRETARY OF THE NAVY

I, RICHARD J. DANZIG, HEREBY DECLARE:

1. I am currently the Secretary of the Navy of the United States of America and the chief executive officer of the Department of the Navy.

2. My statements in this Declaration are based on my personal knowledge, on information provided to me in my

official capacity, and on my evaluation of that information. The purpose of this Declaration, along with my classified declaration in this case, is to assert a formal claim of the military and state secrets privilege in response to discovery directed by plaintiff against defendants and various third-parties.

3. As Secretary of the Navy, I am authorized to determine the proper classification of information through the level of TOP SECRET on behalf of the United States. My *in camera* declaration submitted in this case is properly classified as TOP SECRET, because its public disclosure could reasonably be expected to cause extremely grave damage to national security. This is the most serious degree of damage that existing security criteria recognize.

4. I have been informed of plaintiff's discovery requests in this case served upon defendants and of plaintiff's subpoenas issued to third-parties. I have also been informed of the nature of the claims in the case and the contention to which plaintiff's discovery pertains, i.e., that defendants have infringed plaintiff's patent for a coupling device and have breached the terms of a purported arrangement with plaintiff. I have been advised that defendants and, possibly third parties, possess information responsive to plaintiff's discovery requests. I have also been advised of plaintiff's motion to compel the production of documents and information and the Court's order regarding participation by the United States to assert its interest in this matter.

5. The official activities of the Department of the Navy are many and diverse, but all have a single objective — the

preservation of national security. In order to achieve that objective, the Navy employs various methods, and conducts various programs and operations.

6. As explained herein and in my classified declaration, plaintiff's discovery in this case could be expected to cause extremely grave damage to national security. Requiring defendants and the private subpoena recipients to respond to plaintiff's discovery would, directly or indirectly, provide adversaries of the United States Government with information concerning the operations and programs described in my classified declaration. Those operations and programs are currently ongoing. It is therefore my opinion that disclosure of information concerning them would permit potential adversaries to adopt specific measures to defeat or otherwise impair the effectiveness of those operations and programs.

7. Any further elaboration of this matter on the public record would harm national security interests by revealing the information the military and state secrets privilege is designed to protect. My classified declaration explains in greater detail why the discovery of any information relating to the operations and programs described in my classified declaration would pose a threat to national security.

8. Based on my personal consideration of the matter, requiring responses to plaintiff s discovery, including that directed to private companies, reasonably could be expected to cause extremely grave damage to the vital national security interests of the United States. Accordingly, I formally invoke the military and state secrets privilege in order to foreclose

any discovery relating to the manufacture or use of plaintiff's coupling device or any coupling device by or on behalf of the Government I also invoke this privilege over the *in camera* declarations describing the operations and programs involved.

I declare under penalty of perjury that the foregoing is true and correct.

s/ Richard J. Danzig
Richard J. Danzig
Secretary of the Navy

Date:

(2)

FILED
MAY 1 0 2006
OFFICE OF THE CLERK
SUPREME COURT, U.S.

No. 05-1135

In the Supreme Court of the United States

CRATER CORPORATION, PETITIONER

v.

LUCENT TECHNOLOGIES, INC., ET AL.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES IN OPPOSITION

PAUL D. CLEMENT
Solicitor General
Counsel of Record
PETER D. KEISLER
Assistant Attorney General
MARK B. STERN
ALISA B. KLEIN
Attorneys
Department of Justice
Washington, D.C. 20530-0001
(202) 514-2217

QUESTION PRESENTED

Whether the court of appeals correctly applied settled law in sustaining the government's invocation of the state secrets privilege, and remanding for further proceedings.

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In the Supreme Court of the United States

No. 05-1135

CRATER CORPORATION, PETITIONER

v.

LUCENT TECHNOLOGIES, INC., ET AL.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES IN OPPOSITION

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-25a) is reported at 423 F.3d 1260. The opinion of the district court (Pet. App. 26a-34a) is unreported.

JURISDICTION

The judgment of the court of appeals was entered on September 7, 2005. A petition for rehearing was denied on December 6, 2005 (Pet. App. 67a-68a). The petition for a writ of certiorari was filed on March 6, 2006. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

1. Petitioner brought this suit against Lucent Technologies, Inc., and AT&T Company, alleging patent in-

fringement and related state law claims for misappropriation of trade secrets and breach of contract. The government intervened to assert the state secrets privilege, seeking to prohibit petitioner from conducting any discovery of information relating to the manufacture or use of petitioner's patented device by or on behalf of the United States. Pet. App. 4a.

To support the assertion of privilege, the government submitted public and classified declarations of the Secretary of the Navy and, later, the Acting Secretary of the Navy. The public declarations explained that any discovery into defendants' alleged use of petitioner's patented device for or on behalf of the United States government could be expected to cause "extremely grave damage" to national security by providing adversaries of the United States with information concerning ongoing programs and operations. Pet. App. 4a-5a; C.A. App. 504, 1303. The details of the threat to national security were provided in "TOP SECRET" declarations submitted for the district court's *in camera* review. *Id.* at 503.

After reviewing the classified declarations, the district court issued the protective order sought by the government, barring petitioner from seeking any information about the use or manufacture of petitioner's patented device by or for the government. Pet. App. 6a. The district court allowed discovery, however, into whether defendants had used the patented device for any non-governmental purpose. *Id.* at 56a. Ultimately, the district court held that the evidence showed that all of defendants' work on the allegedly infringing coupler was done for the United States and that therefore the court lacked jurisdiction over the patent infringement claim under 28 U.S.C. 1498(a). That provision makes a

suit against the United States the exclusive remedy when a patented device is manufactured or used by the United States. *Ibid.*

The court of appeals affirmed that ruling, although it held that Section 1498(a) supplies an affirmative defense rather than a basis for denial of jurisdiction. The court then remanded the case to the district court to determine whether to exercise supplemental jurisdiction over petitioner's remaining state law claims for misappropriation of trade secrets and breach of contract. Pet. App. 6a-8a, 35a-53a; *Crater Corp.* v. *Lucent Technologies, Inc.*, 255 F.3d 1361 (Fed. Cir. 2001).

2. On remand, the district court exercised supplemental jurisdiction over the state law claims. Pet. App. 26a-34a. In response to petitioner's subsequent discovery requests to both Lucent and the United States, the government reviewed roughly 26,000 pages of potentially responsive materials to determine whether the privileged information could be removed and a partial production thus made. *Id.* at 26a-29a. The government ultimately opposed the discovery and submitted the public and classified declarations of the Acting Secretary of the Navy in support of its privilege claim. C.A. App. 1298-1304.

The Acting Secretary confirmed that the threat to national security identified in the earlier declarations remained "equally relevant," C.A. App. 1300, and concluded that relevant information could not be redacted or otherwise sanitized in a manner that would avoid damaging national security. *Id.* at 1301. To the contrary, he concluded that disclosing "even limited portions of the information would reasonably be expected to cause serious or exceptionally grave damage to the na-

tional security because the mosaic of information would reveal privileged information." *Id.* at 1301-1302.

The district court conducted an *in camera* review of the roughly 26,000 pages of documents responsive to petitioner's discovery requests. The court held that petitioner's claims could not be tried without implicating matters at the core of the state secrets privilege, and dismissed the case. Pet. App. 9a-10a, 30a-33a.

3. The court of appeals remanded for further proceedings. Pet. App. 1a-25a. A divided panel rejected petitioner's contention that the state secrets privilege was not properly invoked because the Secretary and Acting Secretary of the Navy did not review the documents asserted to be privileged. The court explained that it was sufficient that the Secretary and Acting Secretary "were informed of the nature and scope of the documents sought in discovery, and that each then made the ultimate policy determination, based on his personal knowledge, that disclosure of the material sought would jeopardize a legitimate state secret and pose a threat to national security." *Id.* at 12a.

The court reversed the order dismissing the complaint, however, finding the record inadequately developed to allow the court to determine whether the assertion of privilege required dismissal of petitioner's complaint. Pet. App. 14a-19a. The court observed that although petitioner alleged misappropriation of trade secrets, it had never identified the trade secrets that were at issue. *Id.* at 15a-16a. Likewise, although petitioner alleged a breach of contract, the existence of a contract was in dispute. *Id.* at 17a. The court explained that, under those circumstances, it might not be necessary to reach the issue of the impact of the state secrets privilege if "there are no alleged trade secrets and there was

no contract." *Ibid.* Alternatively, the court concluded, "if there are trade secrets and/or there was a contract, an understanding of the precise nature of the trade secrets and the terms of the contract is essential to the analysis of whether [petitioner's] misappropriation of trade secrets and breach of contract claims may proceed in the face of the assertion of the privilege." *Ibid.* The court accordingly remanded for further development of the record. *Id.* at 18a-19a.

Judge Newman filed an opinion concurring in part and dissenting in part. Pet. App. 21a-25a. Judge Newman concurred in the remand for further proceedings but observed that the protective order sustained by the court might prove an insurmountable obstacle to petitioner's ability to proceed with its claims on remand. *Id.* at 21a-23a. She would have remanded for an adjudication on the merits of petitioner's claims in an *in camera* proceeding. *Id.* at 25a.

ARGUMENT

The interlocutory decision of the court of appeals is correct and does not conflict with any decision of this Court or any other court of appeals. Further review is therefore not warranted.

1. The state secrets privilege permits the United States to prevent the unauthorized disclosure in litigation of information that may adversely affect national security interests. *United States* v. *Reynolds*, 345 U.S. 1, 7-8 (1953). To invoke the state secrets privilege, "[t]here must be a formal claim of privilege, lodged by the head of the department which has control over the matter, after actual personal consideration by that officer." *Ibid.* (footnote omitted).

Petitioner argues (Pet. 14-19) that the court of appeals' decision conflicts with *Reynolds* because the head of the Navy did not personally review any documents responsive to petitioner's discovery requests. That claim lacks merit. The privilege was invoked by the Secretary and Acting Secretary of the Navy, who were informed of the nature and scope of the documents sought in discovery, and who made the ultimate policy determination, based on personal knowledge, that disclosure of the material sought would jeopardize a legitimate state secret and would pose a threat to national security. The Acting Secretary further determined that relevant information could not be redacted or otherwise sanitized in a manner that would avoid damaging national security.

As the panel explained, that process readily satisfied the *Reynolds* requirement that the head of the agency give "actual personal consideration" to the matter. The Secretary and Acting Secretary were not required to review each of the 26,000 pages of documents responsive to petitioner's discovery in order to assert privilege over a *category* of information, *i.e.*, any information relating to the manufacture or use of petitioner's patented device for the United States. It is well-established that an agency head may assert the privilege over a particular subject matter, as was done here. See, *e.g.*, *Kasza* v. *Browner*, 133 F.3d 1159, 1169 (9th Cir.) ("In a case such as this, the Secretary, once she has properly invoked the claim of privilege and adequately identified categories of privileged information, cannot reasonably be expected personally to explain why each item of information arguably responsive to a discovery request affects the national interest."), cert. denied, 525 U.S. 967 (1998); *Bareford* v. *General Dynamics Corp.*, 973 F.2d 1138, 1141-1142 (5th Cir. 1992) (where the government does not

target documents but objects to a claim that would require disclosure of sensitive information, the agency head need only review the "type of evidence" necessary to support the claim), cert. denied, 507 U.S. 1029 (1993); accord *Northrop Corp.* v. *McDonnell Douglas Corp.*, 751 F.2d 395, 400 (D.C. Cir. 1984) (the Secretary of Defense properly had "reviewed a representative sample of the documents as well as affidavits of staff members who had received all of the documents"). The head of the Navy thus was not required to review any, much less all, of the 26,000 documents potentially responsive to petitioner's discovery requests to determine whether the materials fell within the scope of the privileged subject matter.*

2. Contrary to petitioner's assertions (Pet. 19-24), there is no conflict in the circuits or with a decision of a state supreme court. Indeed, petitioner cites no case in which the head of an agency asserted the state secrets privilege over a particular subject matter (*e.g.*, any information relating to the use of a device by or for the government). In *United States* v. *O'Neill*, 619 F.2d 222 (3d Cir. 1980), the court rejected a city's claim of "executive" privilege that "was invoked orally, although there was ample opportunity to prepare a written formal claim

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* Petitioner relies (Pet. 16) on a footnote in *Reynolds* stating that the official asserting the privilege should "have seen and considered the contents of the documents." 345 U.S. at 8 n.20 (quoting *Duncan* v. *Cammell, Laird & Co.*, [1942] App. Cas. 624, 638 (appeal taken from C.A.)). *Reynolds* involved the claim that particular documents were privileged, and the Court did not suggest, much less hold, that an agency head must review particular documents before forming the conclusion that a particular subject matter implicates a military secret. Moreover, the text of the Court's opinion in *Reynolds* makes clear that the privilege is properly invoked after the agency head gives personal consideration to "the matter." *Id.* at 8.

of privilege," and that "was not invoked by the department head, but by the attorney for the City," wholly unsupported by affidavits. *Id.* at 225. The court in *Black* v. *United States*, 62 F.3d 1115, 1119 (8th Cir. 1995), cert. denied, 517 U.S. 1154 (1996), merely stated that the head of the agency must conduct a "personal perusal of the matter" without specifying that the official must review documents to determine if they fall within the scope of a privileged matter. Similarly, in *Kerr* v. *United States District Court*, 511 F.2d 192 (9th Cir. 1975), aff'd, 426 U.S. 394 (1976), "[n]either the [heads of the relevant agencies] nor any official of these agencies asserted, in person or writing, any privilege in the district court." *Id.* at 198. Finally, *Douglas* v. *Windham Superior Court*, 597 A.2d 774 (Vt. 1991), is wholly inapposite, as it involved a state official's invocation of the "investigatory files privilege." *Id.* at 776-783.

3. Petitioner also contends (Pet. 24-26) that its patented device is not a secret and has been the subject of various presentations. That contention misses the point. The government has not asserted, and the courts below did not hold, that petitioner's device *itself* is a state secret. Rather, the state secrets at issue pertain to the manufacture or use, if any, of the patented device by or for the government. The court of appeals, which reviewed both the public and the classified declarations submitted in this case, held that "the government claims a legitimate state secret." Pet. App. 12a. Petitioner offers no basis for this Court to disregard the judgment of the Executive Branch that disclosure of the requested information could reasonably be expected to cause "extremely grave damage to national security," C.A. App. 504, as well as the conclusion of the two lower courts that upheld the government's claim of privilege only

after careful consideration of the government's submission.

4. Petitioner also argues (Pet. 27-28) that the court of appeals' remand order violates its right to a jury trial. That contention lacks merit. The court of appeals merely held that before the district court determines whether petitioner can proceed on its state law claims in light of the state secrets privilege, petitioner must identify the trade secrets and contract provision that are allegedly at issue in its lawsuit. Pet. App. 14a-19a. The court observed that although petitioner alleged misappropriation of trade secrets, it had never identified the trade secrets that were at issue. *Id.* at 16a. Likewise, although petitioner alleged a breach of contract, Lucent claimed no knowledge of any contract with petitioner. *Id.* at 17a. The panel explained that, under those circumstances, it might not be necessary to reach the question of whether petitioner's claims could proceed in light of the state secrets privilege. *Id.* at 17a-18a. There is no reason for this Court to review that interlocutory decision.

For similar reasons, it would also be premature to consider petitioner's assertion (Pet. 29) that petitioner will be "hindered" in identifying its alleged trade secret because of the district court's protective order relating to use of the coupler for or by the government. In any event, to the extent petitioner is unable to establish the existence of a trade secret or contract without implicating a state secret, dismissal of the complaint would be the proper remedy. See Pet. App. 31a-33a.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

PAUL D. CLEMENT
Solicitor General
PETER D. KEISLER
Assistant Attorney General
MARK B. STERN
ALISA B. KLEIN
Attorneys

MAY 2006